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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

February 2013

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT**

FEBRUARY 2013

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic activity generally expanded at a modest to moderate pace since the previous Beige Book. Five Districts reported that economic growth was moderate in January and early February, and five Districts reported that activity expanded at a modest pace. The Boston District said the economy continued to expand slowly, and the Chicago District reported that economic activity grew at a slow pace.

Most Districts reported expansion in consumer spending, although retail sales slowed in several Districts. Automobile sales were strong or solid most Districts, and tourism strengthened in a number of Districts. The demand for services was generally positive across Districts, most notably for technology and logistics firms. Transportation services activity was mixed among Districts, although the majority of contacts were optimistic about future activity. Manufacturing modestly improved in most regions, with several Districts reporting strong demand from the auto, food, and residential construction industries. Residential real estate markets strengthened in nearly all Districts and home prices rose amid falling inventories across much of the country. Commercial real estate activity was mixed or improved slightly in most Districts, and financing for commercial development remained widely available. Overall loan demand was stable or slightly higher across nearly all Districts, and several bankers noted stiff competition for qualified borrowers. Agricultural conditions varied across the country, with some areas continuing to suffer from drought while others reported considerable precipitation and improved

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soil moisture levels. Districts reporting on energy activity indicated modest expansions in crude oil and natural gas exploration, while mining activity slowed.

Price pressures remained modest, with the exception of increases in prices for certain raw materials and slightly higher retail prices in several Districts. Even with some input costs rising, most District contacts did not plan to increase selling prices. The majority of Districts reported modest improvements in labor market conditions, although hiring plans were limited in several Districts. Wage pressures were mostly limited, but some contacts reported upward pressure for skilled positions in certain industries due to worker shortages.

Consumer Spending and Tourism

Consumer spending expanded in most Districts, but several Districts reported mixed or lower activity among non-auto retailers. Sales strengthened in the Philadelphia and Richmond Districts, and retail sales were higher than a year ago in the Boston, St. Louis, and Minneapolis Districts. San Francisco reported modest growth in sales, Dallas noted flat to slightly higher sales activity, and New York said retail sales were strong in January but slowed in February primarily due to weather. The Chicago District said consumer spending increased at a slower rate, while Cleveland and Atlanta noted mixed sales activity. Kansas City said retail sales decreased since the previous survey period and were expected to remain flat in the months ahead. Many District contacts commented on the expired payroll tax holiday and the Affordable Care Act as having restrained sales growth. Many Districts noted rising gasoline prices and fiscal policy as having a negative effect on consumer sales, and contacts in the Boston, New York, and Minneapolis Districts said severe weather depressed sales somewhat. Contacts in several Districts reported a shift in sales activity from local malls to the Internet and indicated deep discounting among retailers was becoming increasingly common. San Francisco noted

somewhat soft sales for traditional retail grocers, whose competition has increased from discount and online retailers.

Most Districts reporting on auto sales noted solid or strong increases in sales, with the exception of mixed activity in the St. Louis District and a seasonal slowdown in the Dallas District. Cleveland auto dealers credited milder-than-normal weather and pent-up demand for the robust sales growth. New automobile sales remained solid in the San Francisco District, driven by demand to replace older vehicles and low financing rates. Chicago and Minneapolis contacts reported an increase in activity for auto service departments due to inclement weather. Auto dealers in the Philadelphia District attributed the strong sales in New Jersey to the continued effect of Hurricane Sandy. The New York District reported wholesale and retail auto credit conditions as positive, with one contact noting increasingly aggressive lenders. Most Districts' contacts were cautiously optimistic about future auto sales.

Tourism remained solid or advanced further in most Districts, spurred by increased snowfall during the winter ski season. Travel was reported as robust in the New York District, particularly in Manhattan, as well as at hotels in the outer boroughs that are still occupied by displaced residents, utility workers, insurance adjusters, and others due to Hurricane Sandy. A ski resort in Minnesota reported that lift ticket sales and lodging were well ahead of last year, although not close to historical records. Boston and Atlanta noted a strong increase in international visitors, especially from Europe. Philadelphia said tourist activity was solid in the Poconos' ski resorts, but some revenues were lost when schools cancelled winter break to make up for missed days during Hurricane Sandy. Contacts in the Richmond District mentioned increased activity along the outer banks of North Carolina, and San Francisco reported solid growth of visitor counts and occupancy rates in Hawaii.

Nonfinancial Services

Nonfinancial services activity continued to grow at a modest pace since the previous Beige Book. St. Louis and San Francisco reported strong demand for technology, logistics, marketing and legal services. Logistics services were also an area of growth in the Philadelphia District, but growth was modest due to firms' concerns about possible federal spending cuts. High-tech services increased in the Kansas City District, but growth was lackluster in the Boston District due in part to weak demand from Europe and Japan. Staffing services firms in the Boston and New York Districts saw improved conditions, but activity was mixed in the Dallas District. Boston, New York, Philadelphia, and Kansas City services contacts continued to be optimistic about growth in the coming months and in the second half of 2013.

Transportation services activity was mixed. Shipping volume in the Cleveland District met or exceeded expectations, with increases driven by the energy sector, rerouting of container traffic, and residual effects from Hurricane Sandy. Transportation activity also increased in the Atlanta District, and port contacts continued to invest in infrastructure and equipment improvements. Kansas City transportation services activity was flat compared to the previous survey period. Dallas reported weakened transportation demand, with decreases in intermodal cargo, air cargo, and coal shipments, but contacts noted that petroleum and petroleum-product shipments increased during the survey period. Trucking firms in the Cleveland and Kansas City Districts had trouble finding experienced drivers, and a Cleveland contact said there may be a driver shortage in the summer. Expectations for future transportation activity were generally positive in most Districts.

Manufacturing

Manufacturing conditions improved in nearly all Districts, but the increases were generally modest. Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis and San Francisco reported some increases in factory activity, but the majority noted that the pace of recovery was slow. Conditions were mixed in the Philadelphia and Dallas Districts, and manufacturing activity in the Kansas City District weakened. Contacts in the Cleveland, Richmond, Chicago, and Kansas City Districts cited concerns over government regulation and fiscal uncertainty as a reason for slow growth.

Auto production increased in the Cleveland, Chicago, and St. Louis Districts, and a Minneapolis contact noted that production increased faster than expected, spurring plans to renovate their plant. Philadelphia and Dallas reported that food manufacturing activity also exceeded expectations during the current period. Manufacturing related to residential construction was a source of strength for many Districts, including wood product manufacturing in the St. Louis and San Francisco Districts; household goods manufacturing in the Chicago District; cement manufacturing in the Dallas District; and general housing construction product manufacturing in the Philadelphia, Cleveland, and Boston Districts. Primary and fabricated metal manufacturers in the Philadelphia District experienced a slowdown in activity, and a structural steel manufacturer in the Minneapolis District planned to close. Durable manufacturing was weak in the Kansas City District, but non-durables—especially chemical manufacturing—improved. Expectations for future factory activity were generally more optimistic compared with the previous survey. Contacts in the Boston, New York, Philadelphia, Cleveland, Atlanta, St. Louis, Kansas City, and Dallas Districts expected activity to improve over the next few months across a wide variety of industries.

Real Estate and Construction

Residential real estate activity continued to strengthen in most Districts, although the pace of growth varied. Contacts in the Boston, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts noted strong growth in home sales, while New York and Chicago reported slight improvements. A realtor in the Richmond District indicated that low interest rates continued to motivate home buyers, and potential buyers in the Philadelphia District expressed greater confidence, including entry-level purchasers who had been increasingly opting to rent since mid-summer. Contacts in the Cleveland and Atlanta Districts said sales were higher than a year ago. Home construction increased in most Districts, with the exception of the Kansas City District where it was reported as unchanged. Several Districts noted ongoing strength in multifamily construction, although contacts in the Atlanta and Cleveland Districts mentioned continued financing difficulties for builders. Home prices edged higher in the majority of Districts, with lower inventories generally cited as the primary cause. Richmond and Atlanta Realtors observed multiple offers on many homes. Philadelphia real estate contacts continued to report low-end home prices as firm or rising slightly, while high-end home prices were still falling. Inventories declined in nearly all Districts, with Realtors in several Districts concerned about the impact on future sales volume.

Overall commercial real estate conditions were mixed or slightly improved in most Districts. Commercial real estate activity grew modestly in the Philadelphia, Richmond, Atlanta, and St. Louis Districts, and activity in the San Francisco District expanded. Boston and New York reported mixed activity, while the Kansas City and Dallas Districts noted few changes. Although some modest growth was reported in the Chicago District, the level of activity remained weak, and commercial contractors in the Cleveland District noted a slowing in activity,

particularly for defense-related projects. Office vacancy rates declined across most of the New York District, and industrial vacancy rates in upstate New York posted their lowest levels in three years. Richmond contacts described the supply of Class A office space as tight, which they attributed to the absence of new construction. Commercial development and leasing activity increased in the San Francisco Bay and Seattle markets, fueled by sustained growth in the technology sector. Commercial construction improved by varying degrees in the Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City Districts. Respondents in the Boston District expressed concerns about overbuilding in Boston's apartment market and office sector, while Philadelphia contacts noted an increase in energy-related projects and repair work resulting from Hurricane Sandy. Cleveland, Atlanta, and Chicago reported high demand for manufacturing space, with some Chicago manufacturers leasing temporary space to accommodate increased demand. Credit for commercial development and transactions was widely available, although Boston noted a large decline in loan demand and contacts in the Cleveland District said financing difficulties continued.

Banking and Finance

Loan demand was steady or increased across all the Districts that reported. Residential real estate loan demand was strong in the Philadelphia, Cleveland, Richmond, Atlanta and Chicago Districts, mainly driven by refinances due to continued low interest rates. Demand for commercial real estate loans was also strong in the Cleveland, Richmond, and Kansas City Districts. Auto lending increased in the Cleveland and Atlanta Districts, and Philadelphia and Dallas cited growth in energy-related loan demand. San Francisco continued to report a slowdown in venture capital and private equity activity, but contacts noted an increase in the number of private technology companies moving toward an IPO.

Asset quality improved at banks in the Philadelphia, Kansas City and San Francisco Districts. Philadelphia, Richmond, Atlanta and San Francisco lenders reported high competition for qualified borrowers. Borrowing standards were reported to have been loosened in some Districts. Atlanta contacts noted additional loan capacity, but continued to be cautious with loan activity. Cleveland bankers considered cost cutting measures, including layoffs, due to shrinking net interest margins. New York contacts indicated a decrease in loan spreads for all loan categories, particularly residential mortgages, and bankers in the Chicago District said that very few mortgage originations were being kept on their balance sheets and that interest rate swaps were being utilized to hedge against a potential rise in interest rates. Bankers were generally optimistic about future activity in the Philadelphia and Dallas Districts for the near term, but Atlanta bankers expected activity to ease toward the middle of the year.

Agriculture and Natural Resources

Agricultural conditions across the country varied with weather patterns. Persistent drought contributed to poor crop and pasture conditions in the Kansas City and Dallas Districts while recent precipitation improved soil moisture levels in the Atlanta and Chicago Districts. Richmond, St. Louis, and Minneapolis reported that elevated crop prices supported stronger farm incomes. Kansas City and Dallas indicated that drought-related herd reductions pushed cattle supplies to historical lows, and Chicago, Kansas City and Dallas reported weaker agricultural export activity. Richmond, Atlanta, Kansas City, and San Francisco noted additional farmland value gains due to robust demand from both farmers and nonfarm investors. Chicago reported that congestion issues in barge traffic eased on the Mississippi River.

Energy activity remained mixed with modest expansions in crude oil and natural gas exploration but slower mining activity. Drilling activity for crude oil and natural gas expanded

further in the Cleveland, Minneapolis, and Kansas City Districts and was steady in the Richmond and Dallas Districts. Future drilling activity was expected to rise in the Cleveland, Kansas City, and Dallas Districts, and Atlanta noted capital spending at Gulf of Mexico ports was expected to increase export capacity for oil refineries. In contrast, coal production fell in the Cleveland, Richmond, St. Louis, and Kansas City Districts, and was expected to decline further with a shift in demand toward low-priced natural gas and stricter environmental regulations. Minneapolis reported a slowdown in metal mining activity, and some facilities planned to further reduce production later in the year. Ethanol production declined in the Minneapolis and Kansas City Districts but edged up in the Chicago District.

Employment, Wages, and Prices

Labor market conditions generally improved, although several Districts reported restrained hiring. Many Districts reported a rise in temporary employees, while staffing contacts in the Boston District noted an increase in the placement of permanent and temporary-to-permanent workers. Auto dealers in the Cleveland and Kansas City Districts mentioned plans to hire more workers, and Dallas noted robust hiring activity for experienced corporate, energy, and intellectual property lawyers. Positions in the manufacturing industry increased in the New York, Richmond, and Chicago Districts, although several Chicago manufacturers expressed plans to either invest in more productive capital or adjust the hours of existing employees prior to hiring new workers. St. Louis noted weakness in healthcare services and information technology positions, and Cleveland reported reduced hiring plans from commercial builders and coal operators. Employers in several Districts cited the unknown effects of the Affordable Care Act as reasons for planned layoffs and reluctance to hire more staff. Wage pressures were minimal in most Districts, but contacts reported some upward pressure for several skilled positions as a

result of higher demand. Some Districts indicated a shortage of skilled workers such as engineers, truck drivers, software developers, and technical jobs, and Atlanta noted a lack of compliance specialists due to heavier regulations in the healthcare industry.

The majority of Districts reported that price pressures remained modest, but some input costs continued to rise. Cleveland and San Francisco noted an increase in prices for petroleum-based products such as gasoline, fertilizer and certain plastics, and contacts in the Chicago, Minneapolis, and Dallas Districts commented on increased transportation and fuel costs. Builders in the Philadelphia, Cleveland, Chicago, Kansas City, and San Francisco Districts cited an increase in construction material costs, particularly for lumber, drywall, and steel. Retail prices were steady or slightly rising in most Districts, although Richmond noted some slowing since the last report. Chicago retailers reported modest wholesale price increases for a number of products, with larger increases for meat, fresh produce, and leather. Retail grocers in the San Francisco District reported relatively stable prices overall, but weather-related factors boosted fresh produce prices. Increased food costs pushed up restaurant menu prices in the Kansas City District, and restaurant owners expect these costs to remain elevated. Atlanta service industry contacts noted that stronger sales were likely to put upward pressure on prices over the next year. Plans to increase selling prices were limited among most District contacts.

FIRST DISTRICT – BOSTON

Economic activity continues to expand in the First District, albeit slowly, according to business contacts. Most contacted retailers but only one-half of responding manufacturers report higher sales in the latest period than a year earlier; nonetheless, most manufacturers are upbeat about 2013. Contacted staffing services firms cite a pick-up in business, while several software and IT services firms say their results are below expectations although they maintain a positive outlook. Commercial real estate fundamentals are largely unchanged, with office leasing activity mixed. Most residential real estate markets across the region continue to show robust sales growth and modest price increases. Across sectors, vendor prices and selling prices are reported to be generally stable and headcount changes fairly modest, either up or down.

Retail and Tourism

Retailers contacted in this round report overall fiscal year 2012 sales increases mostly ranging from 1 percent to 3 percent from 2011, with one source reporting a 7 percent year-over-year rise; these firms completed their 2012 fiscal years either at the end of December or in February. For January 2013, comparable-store sales ranged from a 1 percent decrease to a 6 percent increase from January 2012. Demand continues to be strong for clothing, home furnishings, and furniture, although a few contacts cite some softening in February which they attribute to consumer uncertainty regarding job creation, budget deficits, and the possible sequestration, as well as weather-related issues that depressed store traffic in certain areas. One contact notes that their customers often use tax refunds to finance durable good purchases, and the American Taxpayer Relief Act of 2012 enacted on January 2, 2013 has caused some people to delay filing their returns. Respondents suggest it will be easier to discern underlying sales trends in another month or two. However, they continue to predict a low-growth economy and a somewhat wary consumer in 2013. Wholesale prices are reportedly holding steady.

As noted in the previous report, the tourism industry posted record highs in 2012 for hotel occupancy rates and revenues. Expectations for 2013 are that hotel occupancy will be flat or down about 1 percent compared to 2012, but that room revenues will be up about 6 percent. International travel is expected to increase by about 9 percent over 2012, fueled by continuing strong traffic from Europe and increased travel from Australia and South America, particularly from Argentina and Brazil. Increases in gas prices do not yet seem to be affecting regional travelers. Restaurants continue to have less robust results than hotels, with the average table check down compared to levels in 2009 to 2011.

Manufacturing and Related Services

Manufacturing firms in the First District continue to paint a picture of a slow recovery. Of the 12 firms responding this round, six report higher sales in the fourth quarter versus the same period a year earlier, two report flat sales and four report lower sales. In contrast to the mixed sales picture, 10 of the 12 firms say that their outlook for 2013 is positive. Part of the disconnect reflects the highly cyclical semiconductor industry, which accounts for two of the firms reporting both negative growth in the fourth quarter and positive expected growth in 2013. One firm in particular reports that sales were down by more than one-third in the fourth quarter but that orders are up almost 20 percent. Even some of our own contacts appear to be puzzled at the combination of poor sales results and optimism about growth for 2013; for example, one says his firm—at which January sales were down 6 percent year-on-year—wrote

in planned sales growth of 4 percent to 8 percent in the second half “without any specific reason” except that “everyone expects sales to strengthen.” A contact in the home improvement goods industry notes that sales were strong in the fourth quarter but cautions that tool sales lag increases in housing starts by 6 to 9 months so it is too soon to tell if the increase is seasonal or cyclical. A contact that supplies material for filtration says the global picture is difficult to pin down because Chinese New Year and the seasonal Christmas shutdowns in Europe made year-on-year comparison particularly difficult in recent months. Finally, several respondents expressed uncertainty regarding China, with one saying that some of his Chinese customers reported dramatic reductions in sales, inconsistent with government statistics.

Employment growth seems to be following sales and not the outlook. Only four of our contacts report increased hiring in the fourth quarter or planned increases in hiring in 2013 and four report the opposite. A contact in the industrial distribution business says that sales growth was negative for much of the second half of last year but they held off staff reductions until now. Three contacts cite difficulty finding the right workers in everything from welding to life sciences.

Investment appeared similar to employment, with four firms reporting higher investment or higher planned investment. A manufacturer of fitness equipment says they are curtailing their investment plans because of slower expected growth in sales.

Software and Information Technology Services

New England software and information technology services contacts generally report lackluster activity through February. Several contacts cite weaker-than-expected demand and delays in executing large license agreements, driven in part by economic uncertainty, particularly in Europe and Japan. By contrast, two contacts—whose firms have experienced robust growth since 2010—expanded accounts with a number of global insurance companies, bringing revenues in the fourth quarter to record highs. Many contacts continue to slow the pace at which they are hiring. Indeed, one contact shed approximately 150 jobs in the fourth quarter and has since instituted a “soft hiring freeze”; two other contacts now plan to maintain their current headcount through the end of 2013, following increases of over 5 percent in 2012. Selling prices and capital and technology spending have gone largely unchanged. The outlook among New England software and IT contacts is generally consistent with that of three months ago, with most expecting more robust growth in the second half of 2013.

Staffing Services

First District staffing contacts report that business continues to strengthen. Labor market activity since January is characterized as “improved” or “encouraging”, with all but one contact registering a year-over-year increase in billable hours. The continued growth reportedly reflects increases in labor demand in the IT, industrial, and business services sectors partially offset by a softening of demand for office and clerical assistants and manufacturing personnel. The number of permanent and temporary-to-permanent placements continues to grow, with one contact reporting that permanent placements in their professional business, which includes IT and engineering, are up nearly 30 percent relative to a year ago. Labor supply has gone largely unchanged since May 2012. Contacts continue to have difficulty finding candidates with high-end skill sets such as mechanical and electrical engineers, software developers, and IT personnel; one respondent says this shortage of qualified labor is putting upward pressure on pay rates. Looking forward, staffing contacts are generally more upbeat than they were three months ago, with most

expecting steady or accelerated growth in the second quarter.

Commercial Real Estate

Contacts across the First District offer somewhat mixed reports concerning recent activity and the outlook, but note that fundamentals are largely unchanged since the last report. Leasing interest picked up slightly in Hartford in recent weeks but has not resulted in an increase in completed lease deals nor in significant absorption. In Boston, leasing inquiries remain steady. One Boston contact notes that tenants express little urgency to sign deals while another says that absorption increased slightly in recent weeks. In Providence, leasing activity picked up from last time and Class A downtown office vacancies fell to just under 9 percent from roughly 15 percent a year earlier. A Portland contact reports that leasing activity is stable and office rents unchanged since the last report, notwithstanding some newly announced plant closings in the region that will result in layoffs.

Investment sales reportedly picked up in both Hartford and Providence as some investors were priced out of primary markets such as Boston. Across the region, multifamily structures remain the favored investment class, but high quality office and industrial structures are also seeing healthy demand. More properties are coming up for sale in response to rising prices. Some contacts are concerned that the high sales prices for premier properties in Boston are increasingly out of line with fundamentals. A regional lender notes a significant decline in loan demand for commercial properties since December and cites as possible reasons a temporary decline in the bank's marketing efforts together with a general climate of economic uncertainty. Respondents raise concerns about overbuilding in Boston's apartment market and possibly also in its office sector. While current office construction in Boston is pre-leased rather than speculative, one contact notes that the intended tenants will nonetheless generate significant vacancies at their current locations in other parts of the city.

The outlook is largely unchanged in Portland and Boston, calling for a continuation of slow growth. Upside risks to absorption are cited for both Hartford and Providence, while contacts in both Boston and Hartford note downside macroeconomic risks as a threat to commercial real estate markets.

Residential Real Estate

Across New England, strong year-over-year sales growth continued in December in both single-family home and condominium markets. Initial sales figures for January suggest similarly robust year-over-year growth. According to contacts, low interest rates, affordable prices and improving economic conditions are all helping to spur buyer activity. Some contacts note, however, that a small increase in interest rates might actually spur potential homebuyers to purchase more quickly. Overall, realtors say they are confident in the strength of buyer demand, but worry that declining inventory could damp sales growth. In Greater Boston, realtors report that multiple bids on properties have become increasingly common as inventory falls. Declining inventory levels are putting upward pressure on prices in much of the region although the median sale price in New Hampshire slipped notwithstanding fewer listings.

In the next several months, contacts anticipate continued year-over-year growth in sales and most express confidence that home values will continue to appreciate. Some contacts, however, say the strength of the improvements could be easily undermined if the economic recovery slows. Inventory levels are expected to rise in a few months with the onset of warmer weather, although several contacts worry about whether the supply will adequately sustain buyer interest.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has continued to expand at a moderate pace since the last report. Business contacts report some pickup in input price pressures but relatively few say they are increasing their selling prices. The labor market has shown scattered signs of improvement: manufacturers report an upturn in hiring, and a major employment agency notes increasingly strong demand for temps. Retailers report that sales have generally been strong and ahead of plan in January and early February. Auto sales in upstate New York were also described as robust since the beginning of the year. Tourism activity has been mixed but generally strong thus far in 2013, with hotels getting an additional boost from displaced residents and recovery workers in the aftermath of Superstorm Sandy. Both residential and commercial real estate markets showed signs of improving since the last report. Finally, bankers report increased loan demand, no change in credit standards, further narrowing in loan spreads, and lower delinquency rates on commercial loans and mortgages.

Consumer Spending

Retailers report that sales were strong in January but mixed in early February. Contacts in upstate New York report that sales, as well as traffic, were strong in January but slowed somewhat during the first half of February, in part, because of bad weather in the early part of the month. Moreover, contacts report that the mix of sales activity has continued to shift from actual mall sales to Internet sales. One retail contact notes that deep discounting is becoming increasingly common

Auto dealers in the Buffalo and Rochester areas report that new vehicle sales were exceptionally strong in January, running 20-30 percent ahead of a year earlier, and have shown continued strength in early February—a marked contrast from December, when sales were sluggish. Used vehicle sales have remained flat recently. Wholesale and retail credit conditions for auto purchases are reported to be in good shape, and one contact notes that lenders have become more aggressive.

Tourism activity has generally been robust since the last report. Manhattan hotels report that business was relatively brisk in January, with revenues up 10-15 percent from a year earlier, driven largely by substantially higher occupancy rates but also boosted by a 5 percent increase in room rates. Hotels in the outer boroughs have seen even more dramatic increases, upwards of 40 percent; much of this surge in activity is attributed to Sandy, as hotel rooms are being occupied by displaced residents, utility workers, insurance adjusters, and others who are helping with rebuilding and restoration. Broadway theaters report that attendance and revenues have been running below comparable 2012 levels in January and early December—mainly reflecting a 20-30 percent reduction in the number of shows. Finally, consumer confidence in the region was mixed in January. The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, Pa) shows confidence rebounding strongly in January, after slipping to a more than one-year low in December; however, Siena College's survey of New York State residents shows confidence slipping to a 5-month low in January, with declines spread evenly between upstate and the New York City area.

Construction and Real Estate

Residential real estate markets in the District have shown signs of improvement in recent weeks. A major appraisal firm reports that New York City's co-op and condo market has remained surprisingly active in early 2013, following an exceptionally strong fourth quarter. Apartment sales are up strongly from a year ago, and tight inventories are starting to nudge up prices across the board. One contact notes that year-end inventory levels were the lowest he has seen in more than 12 years. The apartment rental market, however, has leveled off; after rising at a roughly 5-10 percent rate in 2012, rents on apartments in both Manhattan and the outer boroughs are estimated to be running just 1-2 percent ahead of a year ago in early 2013.

An expert on northern New Jersey's housing market reports a pickup in activity and an improvement in the general tone of the market, describing the current season as the best since 2007. Residential builders are reported to be increasingly optimistic—they anticipate a substantially better

year than 2012 and are investing more heavily in new projects. Single-family construction is seen as picking up, as multi-family construction retains momentum. While there remains a large overhang of foreclosed and distressed properties, many of these are expected to be snapped up by investors. Realtors in the Buffalo area report continued favorable conditions in the housing market: prices have risen steadily at a moderate pace, inventory levels are fairly low, and sales activity has been steady.

Commercial real estate markets across the District were mixed but generally firmer since the last report. Office vacancy rates declined across most of the District, though rents in most areas continued to run below year-ago levels. Manhattan's office market was particularly robust, with vacancy rates continuing to decline and asking rents up 4 percent from a year ago. In northern New Jersey and in the Buffalo, Albany and Syracuse metro areas, vacancy rates have declined since the start of the year, but rents continue to run 1-3 percent below early 2012 levels. However, office markets in Westchester and Fairfield counties have been increasingly slack, with vacancy rates climbing to new highs and rents slipping roughly 4 percent over the past year. Market conditions in metro Rochester have been essentially flat.

Industrial markets have shown some signs of firming. In northern New Jersey, Long Island, Westchester and Fairfield counties, industrial vacancy rates have been steady since the beginning of the year, while rents are running 2-4 percent ahead of comparable 2012 levels. Industrial vacancy rates across upstate New York have continued to decline, reaching their lowest levels in three years, while rents have also drifted down.

Other Business Activity

Non-manufacturing contacts report little change in business conditions overall, though they have grown increasingly optimistic about prospects for 2013. Contacts in the manufacturing sector report a pickup in activity since the start of the year and are increasingly optimistic about the near-term outlook. A trucking industry analyst reports that truck tonnage (shipments) strengthened substantially in both December and January, after adjusting for seasonal variation. In general,

business contacts note some increase in input price pressures but relatively few say they are increasing their own selling prices.

There are scattered signs of improvement in the job market thus far in 2013. A growing number of manufacturing contacts report that they are increasing staffing levels and are increasingly inclined to do so in the near future as well. A major employment agency reports that demand for full-time workers has improved slowly but steadily; while potential employers note that strong job candidates are increasingly hard to find, most continue to hold the line on salaries. The market for temps (contract workers) is described as very strong, particularly for one-day assignments.

Financial Developments

Small- to medium-sized banks report steady demand for consumer loans but increased demand for all other categories of loans; demand for refinancing was unchanged. Bankers report that credit standards were unchanged across all loan categories. Respondents indicate a decrease in spreads of loan rates over costs of funds for all loan categories—particularly in residential mortgages, where 40 percent of bankers indicate lower spreads and none indicates higher spreads. Most also indicate a decrease in the average deposit rate. Finally, banks report decreased delinquency rates on commercial and industrial loans and especially on commercial mortgages but indicate no change for residential mortgages and consumer loans.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District has maintained the modest pace of growth that was evident during the previous Beige Book period. In particular, general services and commercial real estate leasing continued to expand at modest rates. Activity in staffing services, transportation services, and residential construction appear to have accelerated somewhat to a modest rate of growth. Sales of new and used autos maintained a moderate rate of growth – joined by general retail sales that grew a bit faster than last period and by residential real estate sales that grew a bit slower. The manufacturing sector reversed course again, citing slight declines in overall demand. Lending volumes at Third District banks continued to grow slightly, and credit quality continued to improve. Ski resorts are enjoying a good season overall, while Atlantic City casino revenues continue to decline. General price levels, as well as wages and home prices, were reported to have increased slightly overall – similar to the last Beige Book period.

The overall outlook for modest growth remains the same as those views expressed in the last Beige Book. Ongoing uncertainty over fiscal issues has postponed many business decisions. Contacts reported a fundamental optimism in the economy and described new signs of emerging growth; however, the ongoing uncertainty over fiscal issues has been blamed for continued weak consumer confidence and reluctance of businesses to make needed investments in plant, equipment, and labor.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported that orders and shipments dipped slightly. Some of the current weakness was attributed to greater volatility in production swings associated with overall slow growth, a high level of uncertainty, and a reluctance to build inventories. As one contact said, “Who can plan?” Makers of food products, lumber and wood products, industrial machinery, electronic equipment, and instruments have reported gains since the last Beige Book. Lower activity was reported by the makers of primary metals and fabricated metal products. Contacts have attributed some growth to rising demand from sectors related to autos, housing, Marcellus shale, and other energy production.

Third District manufacturers expressed slightly more optimism that business conditions will improve over the next six months and their optimism emerged more broadly across all sectors since the last Beige Book. Firms have also further raised their overall expectations of future hiring and their plans for capital spending since the last Beige Book.

Retail. Third District retailers reported a faster pace of sales in January than during the recent holiday period and cited continued gains in February for moderate growth overall. The stronger sales were evident throughout the region and across a variety of malls and outlet centers,

regardless of the level of the stores' quality. Contacts cited a return of cold weather and heavy promotions as prompting double-digit apparel sales of winter wear. Three other factors cited as contributing to the stronger growth were that sales may have borrowed from the soft ending to the holiday season, gift cards were more prevalent, and the comparison period one year ago had weak sales. Reports on leasing activity noted that retail tenants are more confident and taking longer lease terms, leading to net positive absorption, greater occupancy rates, and more landlord pricing power.

Auto dealers started the year as they finished last year – with a moderate pace of sales, continuing a run of steady growth that began a full year earlier. Sales in New Jersey are still stronger, a likely remnant of Hurricane Sandy's impact. While the outlook among dealers remained positive, dealers continued to maintain lean inventories and lean staffing levels. They report that more hiring will occur if the recovery is sustained after more of the fiscal uncertainties are resolved.

Finance. Overall, loan volumes have continued to grow at a slight pace across Third District financial firms since the previous Beige Book. Most loan categories have grown little or not at all, with somewhat more activity generated for small business lending and home mortgages, especially refinancings. Consumer lending is relatively flat. In areas with Marcellus shale gas, several banks have described customers paying down loans with royalty money and avoiding further debt by paying cash. Beyond the gas fields, energy projects are attracting substantial investment interest and loan opportunities for larger banks. The majority of banks indicates little change in credit standards and slow, steady gains in quality; however, a small, but growing number expressed concern about competitors' standards. Financial institutions are generally optimistic about future growth, although most expect mergers and acquisitions to reduce the number of small community banks over the next few years.

Real Estate and Construction. Homebuilders reported contract activity at or near plan for January with a pickup in traffic for February. Year-over-year growth rates were strong off of low levels and builders attributed part of their growth to capturing greater market share. Prospects have greater confidence and are more prepared to buy, including entry-level purchasers that had been increasingly opting to rent since mid-summer. Residential brokers reported moderate year-over-year sales growth in January for a second consecutive year; mild weather helped this year, although January 2012 was also noted for its extremely warm temperatures and lack of snow. As with new home construction, existing home sales are growing from a low base. Builders and brokers are optimistic for sustained growth through 2013. According to one broker, "Better times are coming."

Nonresidential real estate contacts reported continued modest growth in overall leasing activity and continued slight growth in construction. Contacts report that construction and repair work have grown, prospect activity has gained momentum and resolve, and money has been

flowing more freely for investments. Current activity and prospects are emerging from recently quiet sectors, including some land development projects and retail, in particular, large warehouse facilities for national retailers. Activity is heating up in energy-related projects, with some repair work resulting from Hurricane Sandy. Contacts were decidedly more upbeat about future prospects, stating that the trends “feel sustainable.”

Services. Third District service-sector firms have maintained a modest pace of growth since the last Beige Book, according to contacts in various sectors. Tourist activity has shifted to the Poconos’ ski resorts, which are enjoying generous snowfalls and accommodating temperatures that already promise an extended season. However, contacts blame Hurricane Sandy for creating yet another economic casualty – the Poconos’ peak ski week. Many school districts in New Jersey and New York canceled their winter break during the week of Presidents’ Day to make up school days lost to the superstorm – causing many families to skip their traditional family ski vacation in the Poconos. Atlantic City casino revenues continued to struggle through January, prompting a recently-opened casino to file for bankruptcy protection while it continues to operate.

In other sectors, work orders for temporary help have grown busier and busier since the start of the year at an area staffing firm; a logistics firm reported strong overall growth. A large consumer-oriented firm cited a good start to the current year. Firms with defense-related work and entities dependent on federal money for operations, including higher education, expressed a wait-and-see attitude to the most recent fiscal uncertainty. Overall, service-sector firms expressed confidence in their expectations for growth in the near future.

Prices and Wages. Overall, price levels continued to increase slightly, similar to the previous Beige Book. Cost factors among manufacturing firms moderated a little, while the prices they received fell slightly. Tight auto inventories maintain a price environment that slightly favors auto dealers over their customers. Homebuilders continued to note higher prices for lumber, drywall, and other manufactured inputs. Some slight wage pressure is appearing for contractors, which may be related to increasing construction activity, but may also be due to repair crews being drawn to the Jersey Shore by short-term, higher wage contracts. Real estate contacts continued to report that low-end house prices are firm or rising slightly, while high-end home prices are still falling in most markets. Contacts from most sectors continued to report that wages rose only a little, if at all. Health insurance costs are mixed, ranging from very high increases to no change.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a modest pace since our last report. Manufacturing orders and production were steady or rose slightly. The momentum seen in residential construction at the end of 2012, including multi-family, has carried over into 2013. Nonresidential construction showed some slowing. Retail purchases during January fell below year-ago levels, while motor vehicle sales posted solid gains on a year-over-year basis. Little change was seen in conventional oil and natural gas production, but shale gas activity expanded at a robust pace. Output at coal mines trended lower. Freight transport volume exceeded projections made late last year. And demand for business and consumer credit was flat.

Hiring was sluggish across industry sectors. Staffing-firm representatives reported that the number of job openings and placements picked up slightly since the beginning of the year. Vacancies were found primarily in the shale gas and motor vehicle industries and in professional business services. Wage pressures were contained. Input prices were stable, apart from increases in construction materials and some petroleum-based products.

Manufacturing. Reports from District factories indicated that new orders and production were steady or up slightly during the past six weeks. Companies seeing increases were largely suppliers to the energy, residential construction, and transportation industries. Defense contractors cited concerns about the potential downside effects of sequestration. Compared to a year ago, production activity was mixed. Steel producers and service centers described shipping volume as slightly higher since the start of 2013 relative to the previous quarter. Many manufacturing contacts are somewhat more optimistic about near-term growth prospects than they were late in the fourth quarter. Auto production at District plants increased along seasonal trends during January on a month-over-month basis. Compared to a year ago, production was moderately lower, especially for domestic makers.

Inventories are aligned with demand. Steel producers reported that capacity utilization rose slightly during the past few weeks; other factory contacts said that rates were within or slightly below their normal range. Capital expenditures were on plan for the fiscal year. Most outlays are for technology that will be used to enhance productivity. Raw material prices were flat or trended lower, except for increases in some petroleum-based products. Finished goods prices held steady. On balance, manufacturing payrolls were little changed. Wage pressures are contained, although rising health insurance premiums remain a challenge.

Real Estate. Home builders reported that the upturn in sales of new single-family homes continued into January, and that sales were significantly higher than a year-ago. Contracts were found mainly in the mid- to higher-price-point categories. Demand for multifamily housing remains strong, particularly in urban areas, and the turnover rate for apartments has been trending lower. While builders expressed confidence that the improvement in the housing market will persist in the upcoming months, they still see the appraisal process and the availability of financing as headwinds to more robust growth. List prices of new homes are increasing, which was attributed to shrinking inventories and rising construction costs. Builders

have cut back on discounting.

Nonresidential contractors experienced some slowing in business activity, when compared to the fourth quarter of last year. Margins are still tight and inquiries were down slightly. Builders noted that stress on government budgets is choking the supply of projects, especially defense-related. One contractor stated that uncertainty has eased somewhat and the number of potential clients is growing. But transforming proposals into signed contracts remains challenging, which is due in part to difficulty in obtaining financing. Project work is found mainly in manufacturing, distribution, and large multifamily developments. Our contacts are cautious about near-term activity and expect slow to moderate growth, mainly from private-sector clients.

Residential and nonresidential builders reported substantially higher prices for lumber (plywood and softwood), drywall, and to a lesser extent, concrete. General contractors are concerned about subcontractors raising their rates by the second half of this year. The potential increase was attributed to a dwindling number of subcontracting businesses and stronger demand. Residential builders are expanding payrolls at a modest pace, mainly field personnel, while nonresidential builders have stopped hiring due to uncertainty about future demand.

Consumer Spending. Many retailers we spoke with reported that January sales fell below year-ago levels. Higher taxes were cited as a potential contributing factor. Nonetheless, some of these contacts described January results as good or strong. We heard one report that high-end and lower-cost brands were doing better than products aimed at middle-income consumers. Increased volume was seen in apparel and firearms. Most of our contacts anticipate that transactions in the upcoming months will be above year-ago levels, in the low to mid-single digits. However, there is concern about the impact of rising gasoline prices on spending by lower-income households. Vendor and shelf prices held steady. Inventories rose slightly, but they were described as manageable. Capital expenditures were on plan for the fiscal year. No hiring is anticipated, except for staffing new stores.

Sales of new motor vehicles grew at a robust pace during January when compared to the same time period a year ago. Dealers credited milder-than-normal January weather and pent-up demand for the sales boost. Purchases of smaller, fuel-efficient cars, crossovers, and compact SUVs are doing well. New-vehicle inventories were higher than most dealers would like. Our contacts are cautiously optimistic about sales prospects during the next few months. Some commented that the upcoming regional auto shows typically have a positive impact on consumers' willingness to buy. Sales of used vehicles rose moderately during January. Leasing continued to trend higher, which should help to replenish the used-vehicle inventory. We heard two reports about further easing in financing new vehicles. A few dealers are considering increasing their sales staff if volume continues at the current pace. Dealers in the eastern part of the District are apprehensive about losing technicians to the shale gas industry, which may put upward pressure on wages.

Banking. Demand for business credit was little changed across sectors and product categories since our last report. A few large banks noted a slowdown in loan applications during January, while community bankers saw a rise in demand for commercial real estate loans. Reports on consumer credit also indicated little change in demand. Credit card balances were coming down, while activity in home-equity products and auto lending picked up. The residential mortgage market was characterized as strong; however, some of our contacts cited a decline in the number of applicants from a year ago. Delinquency rates held steady or declined across consumer and commercial loan categories. Aggregate core deposits grew, but there was a slight drop-off in business and public-sector deposits. Bankers remain very concerned about shrinking net interest margins. In response, they are considering broad-based cost-control initiatives, which include layoffs.

Energy. Coal production declined across the District relative to 2012 levels, with the largest decreases seen in northern West Virginia and eastern Kentucky. The downward trend in production is expected to continue in the near term. Falling prices for metallurgical coal leveled off, while steam-coal prices were mixed. Conventional oil and natural gas production was steady during the past couple of months, with little change expected during the next quarter. In contrast, shale gas activity expanded at a robust pace. Well-head prices have stabilized. Capital spending in the conventional oil and gas industry is expected to remain low until drilling picks up in late spring or summer. One contact said that he will drill fewer wells this year due to credit restrictions. Coal producers have cut back on capital expenditures. Production equipment and material prices were flat across most categories. Shale gas producers expanded payrolls, while employment at conventional oil and gas firms was flat. We heard several reports of layoffs by coal operators. Many of our contacts pointed to rising health insurance premiums as a concern.

Freight Transportation. For the most part, our contacts reported that shipping volume met or exceeded projections made late in 2012. Higher volume was attributed to stronger demand from the energy sector, rerouting of container traffic, and some residual effects of Hurricane Sandy. Freight executives were fairly positive in their outlook for 2013, but they were uncertain whether the boost in activity seen during a traditionally slow part of the shipping season is sustainable. Diesel fuel prices rose, which some carriers passed through via surcharges. Costs associated with equipment and maintenance items were stable. Reports on capital spending were mixed. Some freight haulers have increased budgets significantly for new equipment this year. Others are postponing equipment replacement until they are certain that the economy is on solid footing. Hiring is primarily for replacement. Wage pressures are surfacing due to difficulty in finding and keeping qualified drivers. There were a few reports about a potential driver shortage during the summer.

FIFTH DISTRICT–RICHMOND

Overview. District economic activity grew moderately since our last report. Manufacturing strengthened somewhat in recent weeks. Tourism also picked up, while other non-retail services providers reported that activity grew at a slower pace. Retail sales rose, although auto sales slowed slightly from previous high levels. Lending activity increased marginally, with a slight uptick in demand for commercial and residential mortgages. Residential real estate activity grew at a modest pace, and commercial real estate and construction markets improved. The agricultural sector remained strong, while oil and natural gas production eased during the past six weeks. Labor markets were generally flat since our last report. Manufacturers' input prices rose at a slightly slower rate, while finished goods prices were little changed and the pace of wage growth held constant. Price growth at non-retail services firms picked up slightly in recent weeks, while wages in that sector advanced more quickly. Retail price increases slowed, and average retail wages rose more quickly since our last report.

Manufacturing. Fifth District manufacturing activity showed some signs of strengthening. A producer of lumber products reported that the month of January was the best in more than five years, and a furniture manufacturer said that there was a firmer tone at his company as measured by product quotation requests. A manufacturer of polyester film told us that overall demand had increased, but he could not yet raise prices and margins continued to be squeezed. He noted that customers were not making long-term commitments and they continued to worry the sustainability of the positive economic trend. A textile manufacturer noted that uncertainty around his government-related contracts could lead to layoffs, although his non-government business was strong. According to our latest survey, raw materials prices grew at a slightly slower pace, while finished goods prices were little changed.

Ports. District port administrators reported strong container traffic in recent weeks. Exports of agricultural and chemical products coming from the Gulf states and the Midwest rose, and port administrators expected a general pick-up in activity in March. Automobile imports slowed in January and February after finishing 2012 on a high note. Exports have led imports so far this year, although exports of equipment for construction and agriculture slowed as last year's capital restocking abated. The Chinese New Year on February 10 resulted in only a few port of call cancellations because of plant and port shutdowns in China. After months of extensions, concerns about dockworker contract negotiations generally lessened since early February, although contracts have not yet been finalized.

Retail. Retail sales strengthened in recent weeks. Survey respondents in food sales, pharmaceuticals, and home and garden centers reported higher revenues in February. A building supply wholesaler commented, "Things are on the mend." Sales of automobiles and light trucks remained strong, even as the pace slowed slightly from last year's robust levels, according to dealerships in several

locations. An auto dealer in West Virginia described sales as “plugging along.” Growth in retail prices slowed since our last report.

Services. Activity in the service sector grew at a slower pace in this reporting period. Survey respondents at law firms, marketing firms, and nursing homes reported slower growth. In addition, executives we contacted at freight trucking firms reported little change in new demand in January and February, with increased business attributed to gaining a larger market share. Financial services firms also noted little change, although a broker at a Virginia firm remarked that his clients were feeling a bit more optimistic. Prices in the sector rose slightly faster.

Tourist activity picked up, however, according to a contact on the outer banks of North Carolina, with a strong Presidents’ Day weekend and solid advance reservations for the summer. Further inland, a hotel and conference center manager noted stronger convention bookings. In West Virginia, winter weather helped boost activity at a mountain resort. Rates were generally flat.

Finance. Lending activity increased marginally since our last report. Most bankers reported a slight uptick in demand for commercial and residential mortgages. Refinancing constituted a significant portion of this demand, primarily due to low interest rates. Officials from both a large commercial bank and a small community bank noted that the demand for refinancing also was driven by five year balloon payments coming due. In contrast, a North Carolina banker reported a slowdown in refinancing due to an increase in interest rates. Commercial loans rose modestly, although demand remained weak. Several bankers in West Virginia noted that there has been a reluctance to invest due to uncertainty about federal policies. A contact noted, “the best customers are not borrowing and are very liquid.” However, other District bankers were cautiously optimistic about the future and growth in their loan portfolios. In addition, lenders noted minor improvement in credit quality and delinquency rates. On the consumer side, demand for loans remained flat. Bankers remarked that competition was increasingly aggressive.

Real Estate. Residential real estate activity generally grew at a moderate pace since our last report. A contact in North Carolina stated that the housing recovery “is real, although modest at this point.” He cited firming sales of new and existing single-family homes, falling inventories, and recovering resale prices as signs of improvement. A Realtor in the Washington, D.C. area said that continuing low interest rates coupled with decreasing inventory had created a very competitive market, which often led to multiple offers. Similarly, a Realtor in the metro-Richmond area indicated that low interest rates continued to motivate home buyers, and that many areas around Richmond had less than two months of supply. In Charleston, South Carolina, a Realtor told us that the housing market had regained some stability and that in 2012, for the first time in five years, more than 10,000 homes were sold. In contrast, a contact in the Charlotte area mentioned that people were adding rooms to their homes, rather than buying and moving. He noted that in the past, homeowners chose renovation projects based on the expected effect on the market price. Now, he said, they build for themselves and stay put. In Maryland, a

source reported slow recovery in the housing sector with fewer days on the market and added that housing prices had stabilized.

Commercial real estate and construction markets improved somewhat since our last report. A developer in the Carolinas said that leasing activity continued at a reasonably healthy pace, while a Richmond Realtor stated that tenants were trying to hedge based on the economy. He noted that companies didn't want to commit to more than a five-year lease with the right to cancel at three years. Most contacts continued to describe the supply of Class A office space as tight, which they attributed to the absence of new construction. Several Realtors reported that rental rates had firmed in the market with property owners keeping rents firm and minimizing concessions. A source in Charleston, South Carolina cited heightened industrial sales due to attractive lending rates. He indicated that vacancy rates had declined and that a couple of build-to-suit projects had positive absorption.

Agriculture and Natural Resources. The agricultural sector remained strong, while energy production declined slightly. Results of our most recent agricultural survey indicated that farmland values were above both the previous quarter and year-ago levels. In addition, most contacts noted that 2012 was one of the best years that farmers have ever had; they indicated that higher commodity prices had resulted in stronger cash positions. Several forestry contacts reported a pickup in lumber prices due to the uptick in the housing sector.

Although conventional oil and natural gas production fell slightly since our last report, the rig count held steady in West Virginia. Coal production continued to fall, due to declining prices for natural gas and stricter environmental regulations. A manufacturer of equipment used in the coal extraction process pointed out that while the environment in the coal mining industry had been challenging, there is tremendous growth potential for coal producers in the global market, particularly in sales to China, India, and Germany. Another source stated that coal exports were up and that a coal operator who had never sold overseas before had thirty percent of sales in export markets for this year.

Labor Markets. Labor market activity was little changed since our last report. Hiring remained flat across most sectors, although there were some exceptions. Employers across the District continued to cite the Affordable Care Act and its unknown impacts as reasons for planned layoffs and reluctance to hire more staff. In contrast, expansion by a software developer in North Carolina will bring new jobs, and contacts in the service and manufacturing sectors reported a demand for engineers and skilled labor, although they also expressed some difficulty in finding such workers. An agent from Maryland reported increased demand for temp workers, particularly in the manufacturing sector. According to our latest survey, average retail wages rose quickly and average wages at non-retail services firms picked up moderately in recent weeks; hiring, however, was still soft. In the manufacturing sector, employment strengthened over the last month, while wage growth remained modest.

SIXTH DISTRICT – ATLANTA

Summary. On balance, Sixth District business conditions appear to have improved modestly in January and early February and the outlook among most contacts remained generally optimistic across sectors.

Overall, retailers cited mild sales growth at the beginning of the year. The District's tourism industry remained a bright spot with both domestic and international visitors contributing to its growth. Homebuilders and brokers noted home sales and prices were above year-ago levels for new and existing homes, while commercial real estate markets continued to witness slow but steady improvements in overall activity. Manufacturers reported increases in new orders and production. Reports from bankers suggested that loan demand remained constant, largely because of refinance activity. Hiring in District labor markets expanded at a modest pace and prices generally remained flat compared with late last year.

Consumer Spending and Tourism. District merchants noted a slight negative effect on consumer spending from the resumption of the full Social Security tax. Reports also indicated that expectations of higher healthcare costs and gasoline prices have contributed to a modest decline in consumer confidence. However, reports showed that sales were up on a year-over-year basis at chain stores. Discounts continued to bolster consumer activity, and auto dealers continued to cite strong sales growth.

Hospitality contacts characterized travel and tourism activity as strong in January and early February. Hotel occupancy rates exceeded expectations and advanced bookings were above the year-earlier pace. International visitors provided a boost to the industry, with European visitors setting record-level activity in recent months. Domestic travel and tourism also remained healthy, despite concerns about rising gas prices. Occupancy rates have been projected to continue increasing with expectations of little cost pressure. Contacts remain optimistic and anticipate persistent growth for the next three to six months.

Real Estate and Construction. According to District brokers, sales growth moderated somewhat on a year-over-year basis but the majority reported that sales were ahead of year earlier levels. Existing home inventories continued to contract and several brokers reported that this was constraining sales. Many noted that properties were receiving multiple offers, particularly at the low-end of the market. Home prices were reported to be ahead of the year earlier level and spring home sales are expected to exceed the year earlier level, as well.

The optimism District homebuilders expressed in our last report continued. Builders reported that recent new home sales and construction activity were ahead of year earlier levels. The

majority of builders continued to note that new home inventories were below the year-ago level. More builders than in our last report indicated that new home prices were above the year earlier level. Access to construction financing remained mostly tight but several brokers and builders stated that they were successful in obtaining financing. The outlook for construction activity and new home sales over the next several months was positive.

Contacts cited improvements in District commercial real estate markets but the recovery continued to unfold slowly. Multifamily projects dominated reports, although it was also noted that manufacturers were expanding their facilities. Commercial contractors reported that construction improved modestly from late last year. Commercial brokers indicated that demand improved as well. Rents stabilized by most accounts and tenants were seeking longer lease deals. Investors still have a strong interest in core markets, though there has been some indication that some have started to turn to secondary markets in the region.

Manufacturing and Transportation. Reports from businesses indicated that manufacturing in the region improved in January and early February. Contacts cited the highest activity level since last September. All components of the Southeast Purchasing Managers' Index experienced increases with new orders, production, and employment reflecting particular strength. The number of purchasing managers that expect production to be higher in the next three to six months increased compared with the end of last year.

District rail companies reported lower total carloads from a year earlier, but slight increases in intermodal traffic. Petroleum products and metallic ores were cited as strong, while grain, farm products, and iron and steel scrap were down notably. A District port contact noted strong increases in overall tonnage as well as auto and machinery units compared with a year earlier. This volume was boosted in part by growth in bulk and wheeled cargo, and year-over-year increases in container traffic were described as notable. Several District port contacts continued to report significant investment in infrastructure and equipment improvements.

Banking and Finance. Bankers reported that mortgage loan demand was good, but continued to be largely driven by refinancing. However, some bankers expect the refinance market to ease up by mid-year as regulatory changes related to reselling mortgages on the secondary market becomes more stringent. Many indicated the willingness to lend, but some noted that competitors were offering loans at terms perceived as risky in the long run. Institutions were noted as having the capacity to handle increased loan volumes, but some continued to be conservative. Auto loan activity remained strong.

Employment and Prices. Since the last report, employment growth for the District has been moderate. High-end retailers reported increased sales that have translated into mild increases in staffing levels. Real estate contacts said they have yet to experience gains that would warrant increasing their staffing levels significantly. Similarly, community bankers noted increased optimism on the real estate front, but are restricting employment levels because of uncertainty related to upcoming regulatory change. On balance, firms providing accounting and consulting services to healthcare providers reported much-increased demand because of regulatory changes, resulting in shortages of compliance specialists.

Inflation expectations among business contacts have been little changed over the past six months. However, costs relating to tax policy, regulation, and healthcare remained sources of uncertainty going into 2013. Firms responding to our Business Inflation Expectations survey reported that unit costs were up 1.7 percent in February over the past year, roughly unchanged from their assessment late last year. Looking forward, business expectations for inflation have been relatively stable. On average, firms expected unit costs to rise 1.9 percent over the next 12 months. Compared with the end of last year, service industry contacts noted that stronger sales were likely to put upward pressure on prices over the next year. Manufacturers indicated that they expect to improve margins in 2013, as sales improve and materials costs moderate somewhat.

Natural Resources and Agriculture. As domestically produced oil has become increasingly available, Gulf Coast refiners reported declining dependence on imported crude for processing, and more refined product being exported. There was some concern that oil and petroleum product export capacity at Gulf of Mexico ports was becoming strained; however, contacts noted that planned investments at these ports were likely to increase export capacity going forward.

Recent rains improved drought conditions in Alabama and Georgia, while Florida saw dry conditions expand over most of the state. Prices for corn, soybeans, beef, broilers, and eggs were higher than year-ago levels while the price for cotton was down. Contacts continued to report that groups with no agriculture experience were looking to buy farmland as they seek better investment returns.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to expand at a slow pace in January and February. Many contacts expected that growth would be weak in the first half of 2013, partly because of uncertainty over federal fiscal policy, but that activity would rebound in the second half of the year. Growth in consumer and business spending slowed during the latest reporting period, but the pace of manufacturing production improved. Residential construction rose at a moderate pace while nonresidential construction remained weak. Credit conditions continued to improve gradually. Cost pressures increased some, while wage pressures remained moderate. Prices for corn, wheat, milk, hogs, and cattle moved lower, while soybean prices moved higher.

Consumer spending. Consumer spending increased at a slower rate in January and February. Retailers pointed to the negative impacts on household budgets from rising gas prices and the end of the payroll tax holiday as explanations for the slower pace of retail sales. Sales of clothing, furniture, and health and personal care items were weaker. However, gift card redemptions boosted sales of electronics, appliances, music, and sporting goods. Grocery stores also reported a slight increase in sales, while restaurant sales were flat. Auto sales were steady for much of the reporting period before increasing slightly over the last few weeks. Car and truck sales both improved, with all-wheel vehicles registering the largest gains. Severe winter weather conditions also led to an increase in service department activity. Looking ahead, retailers expressed concern that potential fiscal policy tightening would continue to have a negative impact on consumer sentiment and retail sales throughout the remainder of the first quarter.

Business spending. Growth in business spending slowed in January and February. Inventory investment declined, and spending on equipment and structures was again limited. Several manufacturers noted that they plan to make capital expenditures this year only as necessary, delaying investments because of heightened uncertainty surrounding fiscal policy. Those non-manufacturing contacts that reported increased capital expenditures were primarily spending on additional vehicles and information technology. Labor market conditions were little changed. Hiring continued to increase slowly. Contacts indicated that there is still strong demand for talent in skilled professional and manufacturing jobs. However, several manufacturing contacts expressed plans to either invest in more productive capital equipment or adjust the hours of existing employees before hiring new workers this year. In addition, a staffing firm noted that demand for temporary

employees had improved —largely based on an increase in demand from the manufacturing sector — but remained weaker in the District than for the rest of the nation.

Construction/real estate. Construction and real estate activity was again mixed in January and February. Demand for residential construction continued to increase slowly, buoyed by ongoing strength in multifamily construction. A contact noted that some builders are in the early stages of looking for new land to develop. Even so, many builders and lenders remain very cautious to re-enter the single-family market. Conditions in the residential real estate market improved slightly, with home prices edging higher and the inventory of unsold homes declining. Home sales reportedly picked up in wealthier communities, but sales continued to lag in low and moderate-income communities. Although there was some modest growth in nonresidential construction, the level of activity remains weak. Notably, while some new projects are slated to break ground, growth in commercial and office space is expected to remain below trend for some time. However, contacts did note that construction of private-practice facilities close to affiliated hospitals is an area of strength in this segment. Commercial real estate leasing activity was generally unchanged--rents held steady, while vacancy rates continued to come down slowly. In contrast, some manufacturers were reportedly leasing temporary space in order to accommodate increased demand.

Manufacturing. Growth in manufacturing production picked up in January and February. The auto industry remained a source of strength, with light vehicle sales expected to increase throughout the year. Specialty metal manufacturers reported increases in new orders and order backlogs; but many expressed concern about the increased volatility of their customers' orders, citing heightened uncertainty over the regulatory and fiscal environment. Inventories at steel service centers were noted to be below desirable levels. A steel producer stated that the steel market is currently moving sideways, but sees signs that activity will pick up later in the year. Manufacturers of household goods also reported a pick-up in demand as the housing market continued to improve. However, a manufacturer of building materials noted that demand had slowed some for their product since the end of last year. Demand for heavy equipment also weakened, with lower coal prices contributing to less mining activity. Furthermore, contacts indicated that heavy equipment dealers were working through an excess inventory of construction equipment. The recent weakness is expected to be temporary, with demand projected to rebound in the second half of the year.

Banking/finance. Credit conditions continued to ease over the reporting period. Credit spreads and financial market volatility remained low and asset quality continued to improve. While underlying risk free rates have risen since the last reporting period, competition among lenders and

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investor willingness to accept more risk prevented an increase in private borrowing rates. Banking contacts reported moderate growth in business and consumer loan demand, with pricing relatively unchanged but some loosening of loan standards. Residential real estate lending, in particular, continued to benefit from historically low interest rates. Contacts noted banks are keeping few very mortgage originations on their balance sheet and relying on interest rate swaps to hedge against a potential rise in interest rates.

Prices/costs. Cost pressures were moderately higher in January and February. Contacts noted some upward pressure on raw materials prices, particularly for lumber, drywall, steel, aluminum, and copper. Several also cited rising energy and transportation costs, pointing to higher gasoline and natural gas prices. Retailers reported modest wholesale price increases for a number of products and larger price increases for meat, fresh produce, and leather. Pass-through to downstream prices, however, was limited. Wage pressures remained moderate. Costs for healthcare and other benefits continued to increase; some contacts noted that they were passing along the higher costs to employees. More generally, higher compensation costs were not being passed on to customers.

Agriculture. Snow and rain continued to boost topsoil moisture levels, although depleted subsurface moisture remained a concern for farmers. Between engineering work on the Mississippi River, higher water levels, and low export demand for grain, congestion eased for barge activity. Corn and soybean stocks at grain elevators were even tighter than last year, as many farmers continued to store a share of their crops on hand in anticipation of higher profits closer to harvest this year. Input costs for planting have not changed substantially over the winter. Corn, wheat, milk, hog, and cattle prices dipped during the reporting period, while soybean prices moved a little higher. The prices for corn and soybeans in February become the benchmarks for potential compensation from crop revenue insurance plans; these prices were high enough to guarantee that insured crop operations will cover their production costs this year. Lower feed costs aided the cash flows of livestock operations. Lower corn prices also led to higher ethanol production.

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Eighth District - St. Louis

Summary

Economic activity in the Eighth District has expanded at a moderate pace since the previous report. Recent reports of planned activity in manufacturing and services have been positive. Retail sales over the past three months have increased compared with the same period a year ago. Reports on auto sales over the same period have been mixed. Residential real estate market conditions have continued to improve, and commercial and industrial real estate markets have also improved. Lending activity at a sample of large District banks indicated little change during the fourth quarter of 2012. Prices, wages, and employment levels over the past three months have stayed the same or increased for a majority of contacts across the District.

Consumer Spending

Contacts reported that retail sales in the past three months were up, on average, relative to the same period last year. Fifty percent of contacts noted increases in sales, while 25 percent noted decreases and the rest saw no changes. Sixty-three percent of retailers reported that sales levels met their expectations, and the remaining retailers reported that sales fell short of expectations. About 69 percent of retailers noted that their inventories were at desired levels, while the remaining contacts reported that their inventory levels were too high. The sales outlook over the next three months was positive: 63 percent of retailers expect sales to increase over 2012 levels, while 19 percent expect sales to decrease.

Reports from car dealers about sales in the past three months were mixed. Twenty-eight percent of the car dealers surveyed saw increases in sales, while 36 percent saw decreases and 36 percent saw no changes. Thirty-six percent of car dealers reported an increase in used car sales relative to new car sales, and 36 percent of car dealers reported the opposite. Sixty percent of contacts reported increased sales of low-end vehicles relative to high-end vehicles. About 62 percent of respondents reported that their inventories were too high, while 8 percent reported that their inventories were too low. The sales outlook for the next three months was optimistic: 54 percent of the car dealers expect sales to increase over 2012 levels and none of the survey respondents expect sales to decrease.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported plans to add workers and expand operations in the Eighth District, while fewer manufacturers reported plans to lay off workers or reduce operations. Firms in steel, automobile, appliance, furniture, automobile parts, plastics, wood products, lumber, beverage, and machinery manufacturing industries announced plans to hire new employees and expand operations in the near future. In contrast, firms that manufacture solar equipment, medical devices, food, and electric components announced plans to lay off workers.

Reports of planned activity in the District's service sector have also been positive since the previous report. Firms in logistics and transportation, marketing, casinos, education, and legal services announced new hiring or expansion plans in the District. In contrast, firms in healthcare services and information services announced plans to reduce employment.

Real Estate and Construction

Home sales continued to increase throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2012, January 2013 year-to-date home sales were up 19 percent in Louisville, 23 percent in Little Rock, 11 percent in Memphis, and 23 percent in St. Louis. Residential construction also increased in most of the District. Compared with the same period in 2012, January 2013 year-to-date single-family housing permits increased 19 percent in Louisville, 9 percent in Memphis, and 44 percent in St. Louis. In contrast, permits decreased 1 percent in Little Rock over the same period.

Commercial and industrial real estate markets improved modestly throughout most of the District. Contacts in Louisville reported that office asking rents increased during the fourth quarter of 2012, while contacts in Little Rock noted that office vacancy rates decreased. A contact in St. Louis reported strong office leasing and industrial sales activity. A contact in Memphis reported stable commercial real estate conditions. Commercial and industrial construction activity continued to strengthen throughout most of the District. A contact in northeast Mississippi noted that commercial construction and renovation activity increased in the fourth quarter of 2012. Contacts in St. Louis noted a few commercial construction

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projects underway and plans for a speculative industrial building project. Contacts in Louisville reported several ongoing commercial construction projects in Bowling Green.

Banking and Finance

A survey of senior loan officers at a sample of large District banks found little change in overall lending activity during the fourth quarter of 2012. During this period, credit standards and demand for commercial and industrial loans remained largely unchanged. Credit standards for commercial real estate loans ranged from basically unchanged to eased somewhat, while demand ranged from unchanged to moderately stronger. Credit standards for prime residential mortgage loans remained generally unchanged, while demand ranged from moderately weaker to moderately stronger. Meanwhile, credit standards and demand for consumer loans remained largely unchanged.

Agriculture and Natural Resources

Annual crop production in the District's states declined for most crops in 2012. The District's states produced less corn, cotton, soybeans, and wheat in 2012 compared with 2011; in contrast, the District's states produced more rice and sorghum. The effect of the decline in production on farm incomes was partially offset by higher prices in the District's states for corn, rice, sorghum, and soybeans. January coal production in the District's states (excluding eastern Kentucky) was down 3.6 percent relative to a year ago.

Prices, Wages, and Employment

Sixty-one percent of contacts indicated that price levels over the past three months have stayed the same, while 25 percent indicated that prices have increased relative to the same period last year. Similarly, half of contacts noted that non-labor costs over the past three months have stayed the same, while 48 percent of contacts noted that non-labor costs have increased. Forty-three percent of contacts, in turn, noted that wages over the past three months have stayed the same, while 57 percent noted that wages have increased relative to the same period last year. Meanwhile, 54 percent of contacts reported that employment levels have remained the same over the past three months, while 35 percent reported that employment levels have increased, compared with the same period last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy showed signs of moderate growth. Increased activity was noted in consumer spending, tourism, professional services and manufacturing. Construction and real estate posted strong growth, while agricultural producers were in mostly strong condition. Activity in the energy sector was mixed, while mining slowed. Labor markets tightened modestly, and wage increases were moderate. Prices were generally stable with some exceptions noted.

Consumer Spending and Tourism

Consumer spending posted modest gains. Same-store sales at a Minnesota-based retailer increased 3 percent in January compared with a year ago. A Minnesota-based restaurant and bar chain reported 2 percent sales gains during January and early February compared with last year. A Minneapolis area mall manager noted that traffic was slower in January due to the cold weather, but winter apparel and jewelry sales have been strong. Store owners at a South Dakota mall noted that recent business appears to be doing well. An increase in inclement winter weather boosted business at auto body repair shops.

Improved snow cover spurred winter tourism activity since the last report. Snowmobiling and cross country skiing picked up over the past few weeks in northwestern Wisconsin, according to an official; the last weekend in February brought up to 30,000 people to the region for the American Birkebeiner cross country ski race. A Minnesota ski resort reported that lift ticket sales and lodging were “well ahead of last year, but not breaking any records.”

Construction and Real Estate

Commercial construction activity increased at a robust pace since the last report. A real estate forecasting firm expects 600,000 square feet of industrial construction in the Minneapolis-St. Paul area in 2013 compared with 200,000 square feet in 2012. Some of that construction is speculative. Residential construction increased rapidly from a year ago. The value of January residential building permits in Billings, Mont., more than doubled from last year, and the value of January permits in Sioux Falls, S.D., was up over 400 percent from a year ago, mainly due to apartment construction. In the Minneapolis-St. Paul area, January residential permits were up almost 70 percent compared with January 2012.

Commercial real estate markets continued to strengthen. A major commercial real estate firm forecast that Minneapolis-St. Paul area office vacancy rates will drop to 15.5

percent by the end of 2013 compared with 17.6 percent at the end of 2012. The same firm forecast industrial vacancy rates to drop to 7.6 percent from 8.5 percent. Residential real estate market activity increased at a strong pace. Home sales in January were up 11 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 32 percent, and median sale prices rose 14 percent. A Minnesota Realtor commented, "Tight housing market with more buyers looking than sellers selling." In the Sioux Falls area, January home sales were up 88 percent, inventory was down 21 percent and the median sale price increased 4 percent relative to a year earlier. Sales of vacation homes in northern Wisconsin posted strong gains in January.

Services

Activity at professional business services firms increased at a modest pace since the last report. Several financial planners noted an increase in business due to clients gaining employment. Some architects noted an increase in bidding activity. A freight trucking company noted a recent slight uptick in traffic primarily due to increased e-commerce traffic. However, mortgage refinancing brokers reported a decrease in activity.

Manufacturing

District manufacturers saw modest growth since the last report. A January survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased in Minnesota and the Dakotas. The rate of increase was slower in Minnesota from the previous month, due mostly to weaker nondurable goods production. A vehicle plant in North Dakota saw faster-than-expected production increases, and it plans to renovate its facilities. Another vehicle maker in Minnesota also reported increased sales, but weakened its outlook for the coming year slightly. However, a structural steel producer in Montana is closing.

Energy and Mining

Activity in the energy sector was mixed, while mining slowed. Oil and gas exploration increased in North Dakota and decreased in Montana since the last report, while production remained at historically high levels. Developers are considering building a large oilfield waste facility in western North Dakota. A Minnesota electricity producer recently closed one coal-fired plant and converted another to natural gas to meet expected future pollution control rules; the utility has also built more wind turbines in North Dakota. Tight corn supplies put pressure on ethanol producers; two plants in Minnesota and one in North Dakota have idled in the last year. Two potential new fracking sand

mines were proposed in southeastern Minnesota. Minnesota iron ore production in 2012 exceeded levels from the previous year. However, production at the end of the year came in lower than earlier months, and some facilities are planning to slow production in 2013.

Agriculture

Agricultural producers in the District remained in mostly strong condition. Despite the drought, the USDA reported that 2012 corn production broke records in Minnesota and North Dakota. South Dakota corn and soybean production were down from the previous year, but came in higher than earlier estimates. The Minnesota sugar beet and North Dakota soybean crops were the highest on record. Prices received by farmers in January increased from a year earlier for wheat, corn, soybeans, cattle, milk, eggs and poultry; prices for hogs, turkey and dry beans were below their year-earlier levels.

Employment, Wages and Prices

Labor markets tightened modestly since the last report. Representatives from two technology companies in Minnesota described the labor market for high-tech workers as “at full employment” with fewer qualified applicants applying for open positions. A trucking broker recently announced plans to expand in Minnesota and add 500 more staff over the next several years. A regional airline announced plans to relocate its headquarters to Minnesota, which will bring a few hundred jobs to the state. In North Dakota, an insurance company recently announced that it expects to create 200 new jobs. In contrast, a home mortgage operation in Minnesota will close this spring, affecting over 200 employees. A medical device company recently announced plans to lay off a substantial number of workers in Minnesota. In Montana, the closure of two food distribution warehouses will lead to over 100 job losses.

Overall wage increases remained moderate. According to a survey of business activity in the Fargo, N.D., area, 72 percent of respondents expect a slight to moderate increase in compensation, while 20 percent expect no change in compensation. Labor unrest was noted in Minnesota, where a union representing 6,000 janitors and security officers was poised to strike at the end of February in response to a lack of progress on contract negotiations.

Prices were generally stable with some exceptions noted. Mid-February Minnesota gasoline prices were up almost 80 cents per gallon compared to mid-January. Contacts noted that some freight shipping costs recently increased.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy showed modest improvement in January and early February. Retail sales slowed during the beginning of the year, but vehicle sales were improved compared to a year ago. Manufacturing activity was weak among durable goods manufacturers, but non-durable manufacturers saw a slight improvement in activity, and high-tech services activity rose. Residential real estate activity and prices increased, but commercial real estate markets were flat. Bankers reported modest growth in loan demand and improvements in loan quality. Drought continued in the District and agriculture conditions deteriorated further. District energy activity expanded during the survey period. Wage pressures continued to be weak, but there was some evidence of upward pressures on prices.

Consumer Spending. Overall, consumer spending was weaker in late January and February, but sales were expected to improve over the next three months. Retail sales decreased since the last survey period, and retailers expected flat growth during the next three months. Store owners noted that low priced items and clothing sold well during the survey period, but sales of high end items remained slow. Auto sales were unchanged compared to the last survey period but continued to be higher than a year ago. Inventories increased, but dealers were satisfied with the overall levels. Automobile sales expectations improved for the near term. Hotel occupancy rates and tourist activity were unchanged and neither expected a change in activity in the coming months. Restaurant sales were also flat. Sales growth in the future was expected to increase moderately, but was constrained by higher food costs.

Manufacturing and Other Business Activity. District manufacturing activity weakened since the last survey period. Production activity declined at most durable goods manufacturers, but some improvements were seen in the non-durable goods sector, especially by chemical producers. Employment and new orders for exports fell compared to the previous survey period. Factory managers continued to be moderately optimistic about future activity. Production, new orders, and shipments were all expected to grow over the next few months. Manufacturers also reported that they expected employment levels to increase, but contacts continued to be concerned about tax and regulatory policies. High-tech service firms reported an increase in activity and expected strong

growth during the next three months. Some contacts reported difficulty finding skilled engineers and developers. Transportation services activity was flat compared to the previous survey period and a year ago. Expectations for future transportation activity and sales were very strong, and contacts reported difficulty finding qualified workers, especially over-the-road drivers.

Real Estate and Construction. Residential real estate showed brisk improvement since the last survey period, but commercial real estate activity was flat. Strong residential real estate sales continued to push prices higher and to decrease the stock of residential inventory. Real estate contacts noted that mid- to low- priced homes continued to be the strongest sellers, and that the high-end market remained slow. Expectations for future housing activity were high due to traditional increases during the spring and summer months. Contacts also cited continued low borrowing rates and improved overall confidence in the economy as reasons for optimism. Sales at construction supply firms were flat, but respondents indicated that future activity is expected to be robust. New home starts were unchanged during the survey period, but are expected to increase over the next three months. Commercial real estate sales, prices, rents and vacancy rates were all unchanged since the last survey period. However, new construction was much improved compared to a year ago and contacts expected new construction to continue to improve in the coming months.

Banking. Bankers generally reported steady or modest loan demand, improving loan quality, and little change in total deposits in the recent survey period. Most bankers described their overall loan demand as the same as in the last survey, with a few bankers reporting moderately stronger demand. Respondents, on average, reported stable demand for commercial and industrial loans, residential real estate loans, and consumer installment loans, with some strengthening in demand for commercial real estate loans. Interest rates on commercial and industrial loans continued to show moderate declines. Most bankers reported improved loan quality compared to a year ago, and they also expected the outlook for loan quality to either improve or remain about the same over the next six months. Credit standards remained largely unchanged in all loan categories and respondents reported total deposits as experiencing little change since last month.

Agriculture. Agricultural growing conditions deteriorated further with persistent drought. Most of the winter wheat crop was in fair to poor condition with low soil moisture. While still

higher than year-ago levels, crop prices edged down since the last survey period with softer export demand and slower ethanol production. Fed cattle prices held relatively steady, though feeder cattle prices rose as continued herd liquidations trimmed already low cow inventories. Robust demand from both farmers and nonfarm investors pushed farmland values to new highs, particularly for irrigated land due to water scarcity stemming from drought. District bankers reported collateral requirements held steady and ample funds were available for farm loans at historically low interest rates.

Energy. In the energy sector, activity in the district improved slightly during the survey period and contacts expected further moderate improvement in the coming months. The number of active drilling rigs for both oil and natural gas were flat during the beginning of 2013, but began to edge higher in February. Energy contacts expected oil prices to remain at current levels during the next three months as a result of balanced supply and demand conditions. Natural gas prices were expected to decrease slightly over the next three months due to weaker demand in the spring and healthy supplies in storage. Wyoming coal output continued to fall during January, which some contacts attributed to more demand shifting to natural gas, with gas prices remaining low.

Wages and Prices. Wage pressures continued to be weak during the survey period, but there was some upward pressure on prices. Firms continued to report changes in health care policy and fiscal uncertainty as reasons for delayed hiring. However, contacts in high-tech services, transportation services and auto dealerships noted they wished to hire, but are unable to find qualified skilled labor. Organizations that serve low- and moderate-income households also noted some improvement in job availability. Prices for raw materials at manufacturing firms continued to move higher, and more manufacturers plan to pass these costs through to finished goods prices over the next six months. Builders and construction supply firms both responded that input prices for construction have increased and that prices are expected to continue to rise over the next three months. Retail prices have also increased recently and retailers expect to raise prices further during the coming months. Increased food costs have pushed restaurant menu prices up recently and restaurant owners expect these costs to remain elevated. Transportation services contacts also reported an increase in input costs both in the current period and over the near term.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. Reports on manufacturing activity were mixed. Retail sales were flat to up slightly, while automobile dealers noted a seasonal slowdown in sales. In the nonfinancial services sector, legal and accounting demand increased, and reports from staffing firms were mixed. Rail and cargo firms said activity weakened, but demand was above year-earlier levels. Airlines said passenger demand was flat to up since the last report. Housing demand remained strong and commercial real estate activity improved. Lenders noted flat to moderate growth in loan demand, and activity in the energy sector remained at high levels. Prices remained stable overall, and there were limited reports of wage pressure. Employment levels were steady to up.

Prices Most responding firms noted stable prices, although some transportation service contacts said costs were up due to higher fuel prices. High tech contacts noted downward pressure on prices, particularly for memory devices.

Oil prices increased since the last report. The price of WTI averaged over \$95 per barrel over the past six weeks. Natural gas prices remained depressed, while gasoline and diesel prices increased.

Labor Market Employment held steady or increased at most firms. Accounting firms said the pace of hiring picked up temporarily as firms entered the busy tax season, but that long-term hiring remained moderate. Legal firms said employment increased, and some noted robust hiring activity for experienced corporate, energy and intellectual property lawyers. One respondent in the staffing industry noted a tight market for skilled workers.

Wage pressures remained mostly subdued, although a few firms noted slight upward pressure on compensation for skilled workers.

Manufacturing Construction-related manufacturers' reports were mixed. Lumber producers noted slow seasonal demand, while sales of cement and related products continued to increase due to solid residential building activity. Outlooks were generally more optimistic than the last report. Demand for fabricated metals rose sharply over the reporting period due to an increase in new private projects. Overall, primary metals producers noted slow seasonal demand, but one contact said they had recently been awarded a large project which would keep them busy for the next three months.

High tech manufacturers said sales were flat to slightly down. Contacts reported that demand for mobile devices softened and sales of personal computers remained weak, but sales of tablets and ultrabooks were growing. The outlook is for sales to remain flat over the next several months but then to pick up slightly during the second half of the year.

Demand for paper products was stable during the reporting period, but contacts continued to be cautious in their outlooks due to uncertainty regarding fiscal issues. Demand for food products was better than expected, and the outlook was positive among food contacts.

Reports from transportation manufacturing contacts were mixed. Sales of recreational vehicles declined, partly as a result of seasonal trends, and outlooks remained uncertain. Demand for aviation equipment increased because of new work from one large project, but the outlook was somewhat cautious because of uncertainties regarding fiscal issues.

Petrochemicals producers said Gulf Coast chemical production was up compared with last year across most product categories. Contacts said refinery operating rates declined and margins increased during the reporting period, partly due to normal seasonal patterns.

Retail Sales Retail sales were flat to up slightly since the last report. According to two national retailers, Texas continued to outperform the nation, albeit by a small margin. Inventories were at desired levels. Outlooks were optimistic, with contacts expecting steady improvement through the first quarter and low- to mid-single digit increases in 2013 over 2012.

Automobile dealers noted a seasonal slowdown in sales, but demand is up slightly year-over-year. Inventories were at adequate levels, although dealerships have started to build up inventories for the spring selling season. Contacts were optimistic in their outlooks; they expect demand to pick-up in the first quarter and 2013 to be a good year.

Nonfinancial Services Reports from staffing firms were mixed. One contact noted sharp declines in demand for services across the board, while another reported stellar demand that broke direct-hiring records. Outlooks were cautious. Some contacts noted concern that client companies are hiring the absolute minimum to get by due to uncertainty about the Affordable Care Act.

Demand for accounting services picked up since the last report, driven by audit and tax activity. Contacts expect demand to remain strong for the next few months. Legal firms reported flat to modest growth in demand with strength coming from real estate and energy-related services and weakness coming from a lack of litigation work. Outlooks were mostly optimistic.

Several transportation service firms said demand weakened since the last report, but overall outlooks were improved. Intermodal cargo and air cargo volumes edged down since the last report, but contacts said they were level or above those from a year ago. Railroad contacts said cargo volumes were down, with coal continuing to be a weak spot. Petroleum shipments were up strongly, however and increases in volumes of lumber and wood remained healthy. Shipping companies said small- parcel cargo volumes grew strongly, propelled by retail trade. Airline contacts noted passenger demand was flat to slightly up. One contact said business travelers remained price sensitive and continued to buy advance-purchase discount fares. Outlooks were mixed.

Construction and Real Estate Contacts in the single-family housing sector said new and existing home demand remained strong since the last report. Realtors noted that extremely low inventories were leading to price increases. Apartment demand growth continues to ease from last year, but contacts remain optimistic, expecting occupancies to remain high despite new construction.

Demand for commercial space remained moderate since the last report. Contacts said real estate investment activity continues to improve, and most remain optimistic in their outlooks.

Financial Services Financial institutions reported mixed loan demand. Larger institutions noted flat loan demand, while community banks reported moderate loan growth. Consumer lending activity increased modestly, while real estate loan demand was limited. Energy activity in the Eagle Ford shale continued to drive lending activity in San Antonio, Houston and the surrounding areas. Loan pricing remained very competitive. Loan quality continued to improve, and borrowers were paying off their loans ahead of schedule. Deposits and deposit rates were flat to slightly down. Outlooks were unchanged, but there is some optimism among contacts that loan demand will increase slightly in the near term.

Energy Activity remained at high levels, and respondents at energy-related service firms noted that the number of active drilling rigs seems to have bottomed out. Margins for services particularly pressure pumping remained tight, but contacts reported slight easing in pricing pressures. Contacts said expectations for average drilling activity in 2013 are being revised up, with most of the improvement expected to occur in the second half of the year.

Agriculture The drought was the main concern over the reporting period. Feed costs remained high and cattle supplies were tight because of the drought, while beef prices and demand both declined seasonally. Cotton prices rallied since the last report, and cotton exports were up slightly. In contrast, corn and grain sorghum prices declined modestly over the reporting period. Grain exports were lower than expected.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Twelfth District economic activity expanded at a modest pace during the reporting period of January through late-February. Price inflation was limited overall, and upward wage pressures were quite modest. Sales of retail items were up on balance, and most business and consumer services gained. District manufacturing activity ticked up. Production activity and sales were strong for agricultural producers. Housing demand trended up further, and commercial real estate activity expanded. Contacts from financial institutions reported small increases in overall loan demand and slight improvements in credit availability.

Wages and Prices

Price increases were limited for most items. Modest upward price pressure was reported for petroleum-related products such as gasoline, fertilizer, and plastics, and some technology products containing precious metal or rare earth components. Reports indicated that prices of some construction materials, including wood products, wallboard, drywall, and steel rebar edged up further, while roofing, cement, and aluminum prices dropped back slightly. Retail grocers reported relatively stable pricing overall, but weather-related factors boosted fresh produce prices in some regions. Hotel room rates increased in Las Vegas and Hawaii. Prices for professional services, such as legal and financial, were stable.

Contacts reported that wage gains were quite modest for most types of workers. Prolonged weakness in labor market conditions has restrained hiring plans, and ready worker availability in most sectors and regions has held down increases in wages and compensation. Some upward pressure was reported for workers in sectors and geographic areas with relatively low unemployment rates, including hospitality workers in popular tourist destinations. A shortage of trained engineers continues to prompt vigorous employer competition and significant compensation gains for this group across a number of industries. In a few areas experiencing large increases in construction activity, wages of construction labor have risen noticeably.

Retail Trade and Services

Retail sales grew modestly on balance. The recent pace of sales and the near-term sales outlook were reported as fragile by retailers selling to consumers at the lower end of the income distribution. New automobile sales remained solid, driven by demand to replace older vehicles and low financing rates. Sales remained somewhat soft for traditional retail grocers, who experienced intensifying competition from discount and online retailers. Demand for higher-end clothing has been stable. Contacts also reported expansion in the user base for Internet and digital media products through increased sales of devices and enhanced features on a number of existing platforms.

Demand for most business and consumer services gained. Contacts pointed to solid sales of various technology services and greater demand for financial and accounting services. Food service providers reported strong sales on net. Activity in the District's tourism and travel sector advanced, with solid growth of visitor counts and occupancy rates reported in Hawaii; however, more modest gains were reported in Las Vegas and Southern California. Current demand for health-care services remained relatively weak, but contacts projected rising demand as additional components of the Affordable Care Act are implemented.

Manufacturing

District manufacturing activity appeared to tick up during the reporting period of January through late-February. Production activity for commercial aircraft and parts expanded, although contacts projected weaker demand for defense aircraft. Longer-term bookings for electronic components appeared to increase. Pharmaceutical goods producers experienced modest gains. Contacts indicated high levels of demand for a clean alternative to diesel fuel that is under development. Wood product manufacturers reported that demand grew further, fueled in large part by rebounds in residential construction activity. Demand for steel products used primarily in infrastructure and nonresidential construction projects grew somewhat. While overall steel capacity utilization remained at a historically low level, capacity utilization was stronger in the automotive steel products subsector.

Agriculture and Resource-related Industries

Production activity and sales were strong for agricultural producers, and extraction activity of natural resources used for energy production expanded on net. Demand for most crop and livestock products grew further, and high grain prices contributed to elevated land prices. Agricultural producers faced higher petroleum-based fuel costs but lower natural gas costs. Natural gas inventories declined a bit. In some slower-growing regions, demand for new gas and electric hookups remains tepid. In parts of the District, warmer-than-average weather conditions led to reductions in overall energy usage. Raw materials were adequately available, although water availability beyond 2013 was a concern in some regions due to a dry winter.

Real Estate and Construction

Demand for housing strengthened, and commercial real estate activity expanded, driven by pockets of strength in several locales. Home sales climbed further in most regional markets, and continuing low inventory levels supported stable or increasing prices. Construction of multifamily residential projects continued to expand. Commercial real estate development and leasing activity increased, particularly in the San Francisco Bay Area and Seattle markets, fueled by sustained growth in the technology sector. Commercial rental rates increased in various parts of the District.

Financial Institutions

Contacts from financial institutions reported that loan demand was up somewhat, and overall credit availability has either improved or remained unchanged from the last quarter of 2012. Contacts expect loan demand to increase more rapidly after federal spending uncertainty is alleviated. Banking contacts continued to highlight ample liquidity and generally stiff competition among lenders to provide credit to well-qualified business loan applicants, with community banks facing increasing competition for small business and auto lending. Contacts reported increases in privately held technology companies poised for public offerings; despite the positive outlook, recent initial public offering, venture capital, and private equity activity was relatively slow in the District's Internet and digital media subsectors. Reports indicated that credit quality for both business and consumer loans has continued to improve slowly.