



April 25, 2007

Summary of Commentary on Current Economic Conditions by Federal Reserve District

Summary

Prepared at the Federal Reserve Bank of St. Louis and based on information collected before April 16, 2007. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Most Federal Reserve Districts noted only modest or moderate expansions in economic activity since the previous report, however two--New York and Minneapolis--reported steady and firm growth, respectively, and Dallas characterized growth as moderately strong.

Reports on retail sales across the Districts were generally positive, although vehicle sales were mixed in several Districts. Most Districts reported that manufacturing activity was slow, with many reports of weakening among manufacturers that support the residential construction sector. Economic activity in the services sector continued to increase across most Districts, especially for firms serving business customers. Tourism activity was generally positive. Residential real estate activity continued to weaken, with sales declining in many Districts and flat in a number of others. Boston, however, noted improving residential markets, with some increases in sales volume. Several Districts also reported declining homebuilding activity. Commercial real estate markets continued to be active, with several reports of robust commercial construction activity. Several Districts noted little or no growth in overall lending activity, but San Francisco noted generally solid loan demand. Reports of weakening residential mortgage activity continued to offset reports of increases in commercial and industrial lending. Agricultural conditions were mixed in recent weeks across the Districts. Activity in the energy and mining sectors has remained at high levels since the previous report.

Most Districts reported continuing tight labor market conditions, especially for skilled occupations. Several Districts noted faster wage growth for skilled workers, but only modest overall wage increases. Consumer prices remained generally stable, with some Districts experiencing only modest price increases. Most Districts, however, reported rising prices for inputs and energy.

Consumer Spending

Reports on retail sales in most Districts were generally positive. New York, Philadelphia, Atlanta, Kansas City, and San Francisco noted increased sales compared with a year ago, while Boston noted mixed sales reports. The Cleveland, Chicago, St. Louis, Minneapolis, and Kansas City Districts reported increased sales since the previous report, and Richmond reported flat sales in recent weeks. In Dallas, sales increased in March but then slowed in April. Several Districts--New York, Philadelphia, Chicago, Minneapolis, and Dallas--noted that the early Easter contributed to sales growth. Sales were generally above expectations in New York, but they were below expectations in Cleveland. Apparel and spring merchandise were strong sellers, while some Districts noted weak demand for home goods. The Districts that reported on inventories generally noted favorable levels. Overall, contacts in Cleveland and Kansas City expect positive sales growth in the next few months, while the outlook in Boston, Philadelphia, and Dallas is more cautious.

Reports on vehicle sales were mixed among the Districts. Although sales improved recently in Kansas City and Philadelphia, both Districts reported that sales were still not above the levels for the previous year. Recent sales were slow in Chicago, mixed in Atlanta, flat or slightly slower in Richmond, and mediocre in parts of the Minneapolis District. Compared with a year ago, sales were up in St. Louis and reached similar levels in Kansas City. Recent demand for used cars was strong in parts of the St. Louis, Minneapolis, and San Francisco Districts, while new car sales improved in Cleveland in March. Atlanta and San Francisco both reported that sales of imports were stronger than sales of domestic vehicles, but Cleveland reported that sales of both types improved. Atlanta and Chicago reported strong demand for more fuel-efficient vehicles, while truck sales were weak in the Atlanta and Kansas City Districts. Auto dealers in Minneapolis and Kansas City have an optimistic outlook for the upcoming months, while those in Philadelphia do not expect sales to improve significantly.

Manufacturing and Other Business Activity

Manufacturing activity remained slow overall, although reports on conditions in the manufacturing sector varied across Districts. Dallas and Minneapolis, for example, reported expansion, while Chicago reported a recent firming of activity. Boston and San Francisco, however, reported that activity was mixed, while New York, Richmond, St. Louis, and Kansas City reported a weakening in the sector in recent months. Reports from the remaining Districts indicated that activity expanded slightly or not at all. Producers of commercial aircraft and aviation products reported strong demand in some Districts. A rise in steel shipments was noted in the Cleveland and Dallas Districts. Atlanta and Chicago noted plans to increase capacity in steel industries. Farm machinery manufacturers experienced increased demand in the Chicago and Minneapolis Districts. Food manufacturers also reported strong performance in the Cleveland and San Francisco Districts. In contrast, many Districts reported weakness among manufacturers that support the residential construction industry. Boston, Cleveland, Chicago, and St. Louis also noted weakness in the auto and auto-related product industries. The Boston, Philadelphia, Cleveland, Chicago, Kansas City, and San Francisco Districts noted plans for increased capital spending in some manufacturing industries.

Activity in the services sector increased in most areas throughout the Districts, particularly for firms serving business customers. Sectors reporting growth included accounting, administrative, business, and health care services. Increases in tourism activity were reported

by Atlanta, Kansas City, Minneapolis, New York, Richmond, and San Francisco. Dallas reported strong railroad cargo and trucking volumes, while the Atlanta District reported weak demand in the freight transportation sector.

Real Estate and Construction

Residential real estate activity continued to weaken in many Districts. Housing markets were described as falling or soft in the San Francisco and Richmond Districts. Year-over-year, home sales declined in the Cleveland, Atlanta, and Kansas City Districts, and home sales were reported as mixed throughout the St. Louis District. The Minneapolis District noted that, for the Minneapolis--St. Paul metro area, home sales were down in the first quarter of 2007 compared with a year ago. Home sales continued to weaken in the Dallas District, but demand remained good by historical standards. In contrast, the Boston District reported that the volume of residential sales across New England shows signs of increasing, though prices remained below 2006 levels. The Dallas District reported that inventories are rising for both homes and building lots. Inventories of unsold high-end homes were noted in the New York and Chicago Districts, and sales of high-end homes were weak in the Kansas City District. Meanwhile, homes in more moderate price ranges were reported as selling well in parts of the New York, Kansas City, and Richmond Districts.

Many Districts saw a decrease in homebuilding. Residential construction decreased in most areas of the Minneapolis, Chicago, and St. Louis Districts. New home construction remained low in most areas of the Atlanta District and many builders anticipate further modest declines. Residential construction remained sluggish in the Kansas City District and builders generally expect home starts to remain flat. Additionally, the Dallas District reported that builders are significantly curbing home starts.

Commercial real estate markets continued to be active across most Districts. Commercial real estate markets remained robust in the St. Louis and New York Districts, and the Kansas City District reported solid gains. While vacancy rates were little changed in the Chicago and Richmond Districts, vacancy rates declined in most cities of the San Francisco and Kansas City Districts. Vacancy rates edged down in some markets of the New York District, with Manhattan office vacancy rates slipping to their lowest levels since 2001. The Minneapolis District noted that office vacancy rates declined in the first quarter of 2007 in the Minneapolis--St. Paul area. The Dallas District reported that office leasing has slowed.

Commercial construction continued to expand throughout most Districts. Atlanta reported that the pace of commercial development during the first quarter of 2007 exceeded year-ago levels. Backlogs in the Atlanta and Cleveland Districts were equal to or greater than they were a year ago. The Cleveland District also reported that activity among commercial contractors has increased over last year's levels. In the Chicago District, non-residential construction remained stable compared with a year ago. The Richmond District generally noted little change in new commercial construction. Several non-residential building projects are planned or under construction in the St. Louis and Minneapolis Districts. Heavy building also increased in the Minneapolis District since the previous report. Commercial and public construction activity has expanded in some areas of the San Francisco District, and the Kansas City District reported, following a period of little growth, that construction has risen there as well.

Banking and Finance

Reports by Districts indicating increasing loan demand for commercial and industrial loans contrasted with reports indicating flat or slowing demand for residential mortgage loans. Overall lending activity slowed or weakened in the New York and Richmond Districts and was flat or increased modestly in the Cleveland, Philadelphia, Chicago, St. Louis, and Kansas City Districts. San Francisco, however, reported overall solid growth in loan demand. Demand for commercial and industrial loans rose in the Philadelphia, St. Louis, Kansas City, Chicago, and San Francisco Districts, and Dallas reported that commercial lending is strong. In contrast, Richmond reported that demand for commercial loans declined. Demand for residential loans declined in the Kansas City and San Francisco Districts, and Dallas reported weakness in real estate loans. Demand for residential mortgages in the Philadelphia and Richmond Districts was flat. Chicago reported rising mortgage applications, and St. Louis reported an increase in real estate loans. New York reported a decrease in refinancing activity, while both Philadelphia and Chicago noted an increase in refinancing activity attributed to borrowers looking to move from adjustable-rate to fixed-rate loans. There were reports of moderate or scattered increases in delinquency rates in some loan categories in the Richmond, Atlanta, Dallas, and New York Districts, but overall credit quality remained at favorable levels in the San Francisco, Cleveland, and Dallas Districts. Kansas City reported unchanged credit standards, while New York reported steady to slightly tighter credit standards for all loans. Both the Dallas and Cleveland Districts reported slightly tighter mortgage credit standards.

Agriculture

Weather since the previous report has had mixed effects on agricultural conditions. Recent rains improved soil moisture in the Minneapolis and Dallas Districts and eased drought conditions in the Kansas City District. Atlanta reported that drought-like conditions lowered the outlook for some crops. Severe cold weather and frost in early April were reported by Richmond, Atlanta, St. Louis, Kansas City, and Chicago. Of these, all but Chicago reported crop damage caused by the cold snap. Because of higher corn prices, farmers in the Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts plan to devote more acreage to corn production in 2007. In the San Francisco District, demand continued to increase for a variety of crops and dairy products. Chicago and Minneapolis reported rising demand for farm machinery, while Chicago reported that farmers were facing delays in receiving new machinery and increased prices for used machinery. Chicago and Kansas City both reported increased cash rents for land.

Natural Resource Industries

Activity in the energy and mining sectors remained at high levels since the previous report. Growth slowed but energy activity remained high in both Kansas City and Dallas. In Kansas City, overall rig count declined, which most contacts attributed to increased drilling costs. Dallas reported that while rig counts are at historically high levels in Texas, growth is slowing and some rigs are moving to the expanding international market. Energy activity in the Minneapolis District increased since the previous report, and mining production remained at near capacity. Cleveland reported that recent oil and gas production ranged from flat to increasing, while exploration was unchanged in Minneapolis. Exploration and new production of oil and gas remained high priorities in the Atlanta District. In Cleveland, coal

production decreased from the previous year and the previous report. Minneapolis and Cleveland reported growth in alternative energy projects, such as wind power.

Labor Markets

Most Districts reported continuing tight labor market conditions, especially for skilled occupations, although several Districts reported expansions in employment levels. There were reports of tight labor market conditions or worker shortages in some areas of the New York, Philadelphia, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas Districts. Additionally, the Boston, Richmond, Atlanta, Kansas City, Dallas, and San Francisco Districts noted difficulties in hiring skilled workers. There were, however, reports of increased hiring in the New York, Cleveland, Chicago, and Kansas City Districts. The Philadelphia and Richmond Districts also reported increased demand for temporary workers. The Dallas, Minneapolis, and Cleveland Districts reported strong demand for workers in several services sectors. Retail hiring was reported to be steady in the Boston and Cleveland Districts, but new hiring was limited to new store openings and replacement.

Wages

Wage increases were reported in some industries of the New York, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts. These were generally modest. Specifically, the New York, Richmond, Atlanta, and Dallas Districts noted wage increases in some services sectors, and the Richmond District also noted faster wage growth in the retail sector. The Dallas District noted that continued layoffs reported by homebuilders and some manufacturers resulted in downward wage pressures. The San Francisco District indicated that wage pressures eased in the construction and agriculture sectors. Except for energy-related businesses, wage pressures in the Cleveland District were largely contained, but wage pressures edged higher in the Kansas City District. There were reports of wage pressures for skilled workers in the Dallas District and for in-store pharmacists in the Cleveland District. The Chicago, Dallas, and San Francisco Districts also noted faster growth in pay rates for some skilled positions.

Prices

Consumer prices remained generally stable or increased modestly, but most Districts reported a rise in input prices, particularly for metals and raw materials. However, a number of Districts reported low or declining lumber prices. Higher energy and/or fuel costs were noted in the Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts. In response to higher input prices, some manufacturing businesses in the Boston, Cleveland, Chicago, and Dallas Districts were able to raise output prices. In contrast, some manufacturers in the Kansas City and San Francisco District were unable to raise output prices. Retailers and service firms in the New York, Philadelphia, Kansas City, Richmond, and Dallas Districts indicated that prices remained stable or increased modestly.

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First District--Boston

Reports are varied from business contacts in the First District. Both retailers and manufacturers cite mixed results in recent months and cautious to positive outlooks. Advertising and consulting firms report generally strong demand but signs of increasing client caution. Residential real estate markets in the region are improving, with some increases in sales volume and declines in inventory. Most business contacts are hiring for replacement; skilled positions remain difficult to fill. Selected costs are said to be rising; some retailers and manufacturers indicate they are raising prices modestly.

Retail

Retail respondents in the First District cite mixed sales results in March and early April. Same-store sales results ranged from low double-digit decreases to single-digit increases year-over-year.

A discount clothing retailer reports that "business has been fine," with same-store sales up 5 percent year-to-date. Sales of children's clothing and accessories have been strong, while men's clothes are weaker. An office-supply retailer notes that same-store sales were up 2 percent to 3 percent, but were somewhat more volatile than previously. Sales of core products, such as ink and paper, were a little slower, and sales of telephones and laptops were more variable; in addition, the launch of Microsoft Vista was significantly weaker than expected. A restaurant chain reports that same-store sales are up about 1 percent, but indicates that the rise reflects increases in price, not volume. Another restaurant chain reports that sales are "on the soft side" and down close to 4 percent year-over-year. A discount furniture retailer observes that although their sales are down a few percentage points, they are doing better than the industry; sales of dining and bedding products are strong, but the company is looking to enhance sales of upholstered furniture. A lumber company reports that "things have just dried up," as sales have decreased by mid-teens percentages from last year.

Inventory levels are mostly in line with expectations. Several respondents report cost increases for dairy, beef, liquid sugar, and paper. The price of lumber is at a multi-year low. Some retailers say they are passing along small price increases to their customers. Employment has been mostly steady, with hiring occurring for replacement or for new store openings. One respondent, however, has reduced staff by more than 10 percent because of declining sales. Capital spending plans are mixed.

Overall, retail respondents are cautious in their outlook. Several contacts express concern about consumer confidence. As one contact describes it, "we have less visibility into where the economy is going." Respondents also mention concerns with rising gas prices and geopolitical tensions.

Manufacturing and Related Services

Manufacturers and related services providers headquartered in the First District report mixed results for 2007 to date. The majority indicate that sales continue to increase, and some are getting a boost as a result of strengthening demand on the part of U.S. refinery and various European customers. However, sales of residential plumbing and heating equipment and construction products are running below year-earlier levels. Manufacturers also report

slowdowns in demand for various other products, including selected consumer goods and some automotive supplies.

Manufacturers indicate that overall materials and energy costs are stable or increasing less than in 2006. However, they continue to express concern about rising costs for metals such as steel, copper, and nickel. Some also cite inflationary pressures or uncertainty associated with oil and natural gas pricing. Changes in selling prices vary widely. Many firms are putting through average increases of 2 percent to 5 percent in the first half of 2007. Others say prices remain unchanged, while makers of IT equipment and semiconductors indicate that prices continue to fall.

Most respondents expect their U.S. headcounts to remain fairly steady in 2007, with average wage and salary increases remaining in the range of 3 to 4 percent. Manufacturers mention that they are facing challenges in staffing domestic positions in finance, accounting, IT, science, engineering, and machining, particularly at New England locations.

The majority of contacts expect their capital spending to increase in 2007. Despite an ongoing shift toward overseas production, many manufacturers are also boosting investments at domestic facilities in order to increase capacity, introduce new products, or improve efficiency.

Manufacturers express a wide range of views concerning their business outlook for 2007. Some indicate that they are cautious, tentative, or even "nervous" as a result of the U.S. housing market, commodity prices, and geopolitical uncertainties. Others cite reasons for being somewhat or very positive about their company's prospects.

Selected Business Services

First District advertising and management consultants report that demand continues to be strong for their products and services, with the majority seeing double-digit revenue growth in the most recent quarter. While their pipelines are flat or up relative to a year ago, a few contacts note that the composition has changed; the number of large projects has fallen and it appears companies are delaying the decision to commit to projects.

Firms have put through selective price increases ranging between 3 percent and 10 percent. Input costs are relatively stable, although a few contacts continue to note increased travel costs. Headcounts are growing in response to demand, but at a slightly slower rate than revenues. Most respondents plan to increase wages by between 4 percent and 8 percent in 2007.

New England business services respondents have a positive outlook, with most expecting the rate of revenue growth in the first half of 2007 to be flat or slightly higher than in 2006.

Residential Real Estate

Across New England, the volume of residential sales shows signs of increasing. In Massachusetts, sales volume increased year-on-year in both January and February. Single-family home sales reported from Massachusetts multiple listing services increased 1.2 percent in February from a year earlier after a double-digit year-on-year increase in January. Contacts in New Hampshire and Maine also cite signs of improved sales activity. Increased

sales volume and lower overall inventory has led to improved supply conditions in regional markets. In Massachusetts, the total number of listings decreased 17 percent from February 2006 to February 2007. At the current pace of sales, there is around 12.3 months of supply in the Massachusetts market, down from over 15 months in February 2006. Market conditions, however, continue to favor buyers across the region, as supply exceeds what contacts feel is balanced in most locations.

Though sales volume is increasing, prices remain below their previous year levels. In Massachusetts, single family home prices were down in February from the previous year's levels by around 4 percent while condominium prices were down 1.8 percent. Contacts in Connecticut, Maine, and New Hampshire also report year-on-year price declines.

Overall, contacts are encouraged by recent changes, suggesting that New England residential markets are returning to what they term more normal conditions.

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Second District--New York

Economic activity in the Second District has grown steadily since the last report. Consumer prices remain relatively stable, despite some signs of acceleration in input prices and wages. Labor markets appear to have firmed, with reports of a pickup in hiring activity. Retailers indicate that sales were generally ahead of plan in March and early April and that selling prices remained steady. Tourism activity has shown signs of picking up since the last report. Two regional consumer surveys show confidence at high levels, despite retreating modestly in March.

Manufacturers report that activity slowed in March and early April and that profit margins are being squeezed by rising input prices. Housing markets continue to be mixed: prices have edged down and are generally on par with or moderately below year ago levels; however, apartment sales activity has picked up in New York City. Manhattan's office market tightened further in the first quarter, with asking rents up more than 20 percent from a year earlier, while suburban markets have strengthened modestly overall. Finally, bankers report further weakening in loan demand, slightly tighter credit standards, and a modest increase in delinquency rates on commercial and industrial loans.

Consumer Spending

Retailers report that sales were generally ahead of plan in March and early April, despite unseasonably cold and wet weather, including a mid-March storm. Buoyed partly by an earlier Easter, same-store sales were reported to be up 8 to 9 percent from a year earlier, with particular strength noted at New York City stores. Sales of apparel and accessories were described as robust, whereas sales of home goods continued to be characterized as soft. Overall, inventories are reported to be at favorable levels, while selling prices are said to be flat to up modestly.

Tourism activity in the District has shown increased strength since the last report. Preliminary March reports from Manhattan hotels show occupancy rates rising above already-strong February levels and room rates soaring roughly 15 percent above comparable

2006 levels. Broadway theaters also report a brisk pickup in business starting in late February and continuing into early April: over this period, both attendance and total revenues are reported to be up roughly 12 percent from a year earlier, compared with increases of roughly 6 percent in January and early February. Average theater ticket prices have leveled off, after sizable increases in 2006. Hotel occupancy rates in the Buffalo-Niagara Falls and Albany-Saratoga areas are reported to be up noticeably in early 2007 compared with a year earlier. Two regional surveys indicate a pullback in consumer confidence, though current levels remain relatively high. Siena College's survey of New York State residents showed confidence retreating in March, after climbing to a 6-year high in February. The Conference Board's March survey of Middle Atlantic residents also showed overall confidence retreating modestly from a high level.

Construction and Real Estate

The commercial real estate market in metropolitan New York City remained robust in the first quarter. Manhattan office vacancy rates slipped to their lowest levels since 2001 and asking rents were up 20 to 30 percent from a year ago. In addition, the sales market for Manhattan office properties is described as exceptionally strong. Most suburban office markets tightened slightly in the first quarter: in Westchester and Fairfield Counties and on Long Island, vacancy rates edged down and rents rose roughly 5 percent from a year earlier; however, northern New Jersey's vacancy rate edged up above 17 percent, while rents rose 3 percent.

Housing markets continue to be mixed. New York State Realtors report that statewide sales activity in early 2007 has been moderately lower than a year earlier, while the median sales price was virtually unchanged. A northern New Jersey real estate contact notes that, while many high-end homes (over \$1.5 million) have languished on the market, there are pockets of strength for more moderately priced homes. A contact in New Jersey's homebuilding industry notes that, while homes priced at under \$300,000 have been selling well, the overall market remains soft; new home prices are reported to be down from a year ago, and cancellation rates are said to be high, particularly in active-adult (retirement) communities. Finally, Manhattan's co-op and condo market continued to show resilience in the first quarter: sales activity rose sharply, and the inventory of listings, though still fairly high, continued to decline. However, selling prices for apartments, which had risen moderately throughout 2006 were reported to be virtually unchanged from a year earlier.

Other Business Activity

A major NYC employment agency indicates that hiring activity picked up in March and early April, after a lull in the first two months of the year. The main factor restraining hiring activity is reported to be a shortage of job candidates. Salary offers are estimated to be up roughly 5 percent from a year earlier, on average, though candidates are often able to negotiate upwards. More broadly, non-manufacturing firms in the District report continued moderate expansion in general business activity, increased hiring plans and continued widespread wage increases in early April.

In contrast, New York State manufacturers report little or no growth in business activity in March and early April, following a strong February, and indicate some slowing in hiring activity, though their expectations about the near term outlook remain generally positive. Firms also note some acceleration in prices paid but report less widespread increases in

prices received than in recent months, suggesting some downward pressure on profit margins.

Financial Developments

Bankers at small to medium-sized banks in the District reported weaker demand for all types of loans since the last report-particularly in the commercial mortgage loan category, where close to half of bankers report declines in demand and just 15 percent reported increases. Respondents also continue to report decreased refinancing activity. Bankers indicate steady to slightly tighter credit standards in all loan categories. Respondents report modest declines in rates on both residential and nonresidential mortgages. There was no reported change in average deposit rates. Finally, bankers indicate a moderate rise in delinquency rates on commercial and industrial loans but no significant change in other categories.

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Third District--Philadelphia

Economic conditions in the Third District improved marginally in March and early April. Manufacturers reported slight increases in shipments but only steady orders. Retail sales of general merchandise rose, boosted by the early Easter and warm weather in March. Auto sales also picked up somewhat. Bank lending rose moderately. Service-sector firms generally reported continued growth, although several indicated that the pace of expansion has eased recently. Third District business contacts reported more instances of price increases in March than they did in February. Most of the firms reporting on labor costs indicated that wages continued to increase at a moderate, steady rate. Employers said benefit costs were also rising; some said the increase has been steady, and others said the increases so far this year have exceeded last year's increases.

Third District business contacts generally expect business activity to continue to expand at a modest pace. Manufacturers expect demand for their products to increase. Retailers expect continued expansion in sales, although at a slower rate. Auto dealers do not anticipate much improvement. Bankers expect business and consumer lending to remain on the rise, but they do not anticipate a strengthening in mortgage lending. Service-sector firms forecast continued gains in activity, although some believe the pace of growth could ease.

Manufacturing

Third District manufacturers reported a slight increase in shipments from February to March. However, they indicated that new orders were only steady month to month and order backlogs fell. The weakness in orders was fairly widespread among the region's major manufacturing industries, although some makers of industrial materials and equipment noted increased demand for their products. Capital spending plans picked up somewhat in March, with increases scheduled in a broad range of manufacturing industries.

Looking ahead, Third District manufacturers expect modest increases in demand for their products. Among the manufacturers contacted in March, around 40 percent expect their shipments and orders to rise during the next six months; just under 20 percent expect decreases. The outlook for improved business is fairly widespread among the major

manufacturing sectors in the region, although makers of transportation equipment anticipate further declines.

Retail

Third District retailers generally reported year-over-year sales increases in March. The early Easter holiday boosted the annual gain, as did warm weather that prompted sales of spring apparel. However, several of the store executives contacted for this report said they believe the underlying sales trend is not as strong as the March results suggest. They believe consumers are growing more cautious in their spending in response to rising gasoline prices, the slowdown in house price appreciation, and general concerns about overall economic conditions. Retailers expect sales growth to ease in April, following the Easter surge in March, and they are cautious in their outlook for the rest of the spring.

Auto sales improved somewhat in late March and early April, although they remained below sales during the same period a year ago. Inventories have been reduced in recent weeks, but many dealers indicated that their inventories were still above desired levels. In general, dealers in the region said they do not expect sales to improve significantly; they also thought uncertainty about possible corporate changes among auto manufacturers was dampening the current sales rate.

Finance

The volume of loans outstanding at Third District banks rose moderately in March, according to commercial bank lending officers contacted for this report. Commercial and industrial lending edged up, and personal lending rose modestly. Demand for residential mortgages was nearly flat. Some bankers noted that consumers were shifting from variable-rate home-equity lines to fixed-rate home-equity loans.

Bankers in the District expect business and consumer lending to increase gradually in the next few months. However, they noted that both businesses and consumers have become more concerned about economic conditions and appear to be trimming or delaying plans to increase borrowing.

Services

Most of the Third District service firms contacted for this report indicated that activity remained on the rise, although several said that growth has slowed recently. Business services firms reported growth, but several noted that revenue gains have not matched expectations because business from existing customers has not increased as much as anticipated. Employment agencies and temporary help firms reported that demand for workers has been rising, although hiring plans have moderated in some parts of the District. Service-sector firms generally expect business to continue to increase in the months ahead, although some are concerned that growth could be slower than they had expected at the beginning of the year.

Prices and Wages

Reports of increases in the costs of raw materials and other inputs from Third District businesses were somewhat more widespread in March than in February. Manufacturers

noted increases in prices for metals, plastics, industrial equipment, paper products, and electricity. Retailers and service firms also reported price increases for energy. Retailers said costs of goods and selling prices have not changed much in the past few months.

Firms reporting on employment costs in March noted a generally steady trend of moderate wage increases. They indicated that benefit costs were also rising. Some firms reported steady increases; others noted that the increases this year have been greater than last year's. Labor availability was generally described as adequate, although employers in some parts of the region said they have had recent job openings that have taken longer to fill than they had expected.

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Fourth District--Cleveland

Economic activity in the Fourth District grew at a modest pace since mid February. Manufacturing was stable to increasing with District auto assembly plants--domestic and foreign--reporting increased production. Activity in commercial construction held steady while new home sales remain at low levels. Retailers, including auto dealers, saw a pick-up in sales during March after a disappointing February. Loan demand at banks improved slightly while credit quality remained strong. Energy-related activity was mixed. And demand for trucking and shipping services showed a slight uptick.

On net, reports point to a slight increase in employment levels across the District. Staffing firms reported positive trends in job openings over the past six weeks and on a year-over-year basis; however, the number of job seekers appears to have declined year-over-year. Although openings are found across all industries, the greatest demand was seen in health care, IT, and accounting. With the exception of energy-related businesses, wage pressures are largely contained. Most manufacturers, commercial builders, and coal producers reported that input prices, especially for metals, are rising.

Manufacturing

District manufacturers reported production levels were stable to increasing during the past six weeks and on a year-over-year basis. Top performers were found in air transportation, fabricated metals, chemicals, and food processing. Looking forward, almost all our contacts anticipate production remaining at current levels or increasing. District auto assembly plants reported increased production during March with increases evenly distributed between domestic and foreign brands. On net, auto production decreased slightly on a year-over-year basis--foreign brands showed an increase while domestic makers reduced production. A majority of our steel contacts report shipments have strengthened during the past six weeks and expect moderate growth to continue for the remainder of the second quarter. Stronger markets include commercial construction, machinery, aircraft, and ethanol production.

Almost all manufacturers reported that capital expenditures were on plan since mid February with more than half of the respondents saying they plan to increase spending in the next 12 months. Of this latter group, several are planning aggressive expenditures which will include plant expansions; however, some spending will be outside the District or country. A majority of producers reported a rise in input prices--particularly for metals--over the past six weeks. Several attributed the increase to global demand. In response, about half of our

contacts said they increased their prices or used surcharges to pass through increased costs. Most were successful except in the auto and housing markets. About a third of our contacts reported a small increase in employment during the past six weeks including some who recalled laid-off workers. Hiring in the near future is expected to be slow with only a third saying they plan to add workers. Wage pressures are largely contained.

Construction

New home sales over the past six weeks were reportedly stable--but at low levels--and down on a year-over-year basis. Looking forward, most residential contractors expect activity in 2007 will be similar to the second half of 2006 and don't foresee an uptick until late 2007 at the earliest. Even though real estate markets show rising inventories, prices and sales activity of existing homes continues to hold up across several District markets. New home prices continue to be relatively high when compared to existing homes. Material costs are holding steady for the most part with a majority of contacts reporting a decline in lumber prices.

Activity among the District's commercial contractors has been steady since mid February and increasing on a year-over-year basis. Segments showing strong activity include health care, public works, and manufacturing. Backlogs are stable to increasing. All contractors reported moderate price increases for building materials-especially steel; however, most builders held their prices steady. On net, there has been a slight increase in employment levels over the past six weeks due to increased demand.

Retail

District retailers reported an uptick in sales for March after a disappointing February; however, most contacts said activity was below plan. Looking forward, all retailers expect sales to increase during the second quarter. In general, supplier prices and other input costs have remained steady over the past six weeks. New car sales showed improvement on a month-over-month basis with several contacts citing better weather as the reason for the uptick. In addition, many dealers report they now have better products to sell. Improved sales were seen in both domestic and foreign brands. Retail hiring continues to be limited to new store openings and turnover. Reported wage pressures were limited to in-store pharmacists.

Banking

Since mid February loan demand has been flat to slightly up. On the commercial side, real estate projects accounted for many loans. Several bankers noted an increasing demand for auto loans. The market for mortgage products was mixed with two contacts reporting increased volume during March, mainly for new activity versus refinancing. Bankers located in larger markets said they have recently tightened mortgage credit standards. Almost all contacts report no change in credit quality and delinquencies were stable or declining.

Energy

Coal production decreased during the past six weeks and on a year-over-year basis while oil & gas production was flat to increasing. In general, spot prices for oil, natural gas, and coal have remained flat or declined since the beginning of the year. All our contacts said that

capital spending remains on plan with little change anticipated during the next few months. Oil & gas producers reported modest hiring since January whereas some layoffs have occurred in the coal industry with more anticipated. Most energy producers are experiencing wage pressures. Alternative energy representatives continue to see growth in advanced energy technologies-especially solar and wind power.

Transportation

Although overall demand for trucking and shipping services remains soft, half our contacts reported a slight uptick since mid-February. Opinions on capital spending were mixed; however, a majority said that spending will be lower on a year-over-year basis-many companies pushed up purchasing timetables for truck engines to 2006 due to new EPA regulations that went into effect January 1. Wages were flat during the past six weeks. On net, employment was steady with hiring attributable to driver turnover.

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Fifth District--Richmond

Fifth District economic activity expanded at a slower pace since our last report. Services firms generally continued to report moderate revenue growth, though the overall pace eased a bit. Retail sales were flat, on balance, with most categories slowing. Manufacturing activity continued to slip, with shipments, new orders and capacity utilization edging lower in recent weeks. Lending activity at financial institutions slowed somewhat, though several contacts suggested that firms couldn't find enough skilled workers to expand. There were only scattered reports of increases in loan delinquencies and late payments, but a few lenders suggested that tax refunds had provided only temporary relief. Housing markets were generally weaker, though pockets of strength remained. Commercial real estate markets remained solid, despite some concerns about the sustainability of demand going forward. District labor markets continued to be tight, and the demand for workers was expected to remain strong in coming months. Wages grew moderately. Price pressures were mixed, with the pace of manufacturing prices ticking up, but services prices showing only modest growth. In agriculture, a cold snap in April hurt the peach crop substantially and dented the prospects for other crops.

Retail

Retail contacts said that sales were flat, on balance, in recent weeks. The manager of a West Virginia sporting goods store and the manager at a large bookstore in central North Carolina reported that sales growth increased somewhat since our last report. In contrast, the manager at a department store in Virginia Beach, Va., said she deeply discounted the considerable quantity of clothing unsold during recent unusually warm winter months and that sales of other items languished. In addition, a contact at a large home improvement chain told us that their sales continued to soften over the past month. Automobile and light truck dealers reported steady or slightly slower sales growth. Retail employment increased, despite reports of greater difficulty finding qualified people. Retail prices were slightly higher since our last report and retail wages grew more quickly.

Services

Revenues continued to grow modestly at service-producing businesses since our last report, according to contacts. Contacts said demand strengthened at administrative, support, and other business-to-business services firms, while demand was unchanged at professional, scientific, technical, and healthcare services establishments. Price growth at services firms was restrained in March and April, while wages continued to grow at a moderate rate.

Manufacturing

District manufacturing activity continued to drift lower in March and the first half of April, with further ongoing contractions in shipments, new orders and capacity utilization. Demand facing furniture, lumber, primary metals, and printing and publishing was notably weak. An electrical equipment manufacturer in Maryland told us that their domestic sales were down 30 percent-the third month of weakness. A North Carolina plastics producer noted that after many months of strong activity, he now sensed some slowing. Prices of raw materials and finished goods prices grew more quickly in recent weeks after tapering off in March.

Finance

District bankers reported somewhat slower lending activity since our last report. Demand for commercial loans contracted in recent weeks throughout the Fifth District. Some contacts suggested the slowing was not a sign of broadly weaker demand, however. A Winston-Salem, N.C., contact noted that the softening was only in localized pockets throughout the Carolinas. In addition, a Charlotte, N.C., banker identified a shortage of skilled workers as one cause for the downturn. He said, "Firms want to expand, but simply cannot without enough workers." Residential mortgage lending, however, remained flat. There were only scattered reports of increases in late payments or delinquent loans, but a number of contacts speculated that tax refunds supported loan payments in March, perhaps providing only temporary relief.

Real Estate

Housing markets generally softened in some parts of the District during March and early April, according to reports from residential real estate contacts. An agent in Richmond, Va., said that spring is typically the "hottest" time for the housing market but that he had seen relatively soft activity in recent weeks. However, contacts in Asheville, and Greenville, N.C., indicated that low- to middle-price houses were "flying" off the market. A respondent in Greensboro, N.C., told us that buyers were taking their time sifting through lots of inventory in his area, slowing the pace of sales. In contrast, an agent in the Washington, D.C., area noted that move-up buyers were having difficulty finding higher-priced homes inside the beltway due to a lack of inventory. House prices generally declined across the District, with contacts in some areas reporting that home prices fell 2 to 4 percent and that condo prices were off 7 to 9 percent when compared to a year ago.

Commercial real estate agents reported little change in leasing activity since our last report, as demand for commercial space remained strong. However, one contact in Washington, D.C., noted a slowdown in retail leasing. Contacts generally reported little change in new commercial construction. In contrast, a Northern Virginia contact said that the construction of office space continued and he expressed concern about the sustainability of the demand

for the space. He expressed surprise that rents remained steady in the face of an "overbuilt" market. Vacancy rates were little changed across the District.

Tourism

Tourist activity strengthened since our last report. A manager at a mountain resort in Virginia said that the last six weeks of the ski season improved notably with the onset of cooler weather, and that bookings for the Easter weekend were almost "maxed out." Contacts at hotels along the District's coast also reported increased bookings for the Easter weekend when compared to a year ago, noting that higher gas prices didn't hurt their business. In Washington, D.C., the annual National Cherry Blossom Festival, Washington's signature event, attracted over a million tourists.

Temporary Employment

Temporary employment agencies continued to report generally strong demand for workers since our last report. A Rockville, Md., contact reported an across-the-board strengthening in demand for computer-skilled workers at his office; he expected no letup over the next six months. Likewise, a contact in Raleigh, N.C., told us that he saw no indication that hiring was slowing. Conversely, Richmond, Va., and Washington, D.C., contacts told us that budget constraints at some firms and a little slowing in the economy had cooled demand for workers in their areas. Customer service, warehouse, accounting and computer skills and workers with specialized skills continued to be highly sought by employers.

Agriculture

Warmer-than-normal periods of mild, dry weather in March ended with severe frost and frigid conditions in early April. The cold temperatures and snowy weather hampered field work in Maryland, while the severe conditions damaged crops such as fruits, vegetables, corn, tobacco and small grains in the Carolinas, Virginia and West Virginia. Agricultural officials in South Carolina told us that 90 percent of that state's peach crop was lost. In addition, producers in western Virginia and West Virginia reported that freezing temperatures had taken a toll on their peach and apple crops, though they were still assessing the extent of the damage.

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Sixth District--Atlanta

Reports from District contacts indicated, on balance, that business activity continued to expand modestly in March and the first half of April. Retail sales increased while auto sales remained mixed. Reports on the tourism and hospitality industry were generally positive. Residential home sales and construction continued to decline in most areas, most notably in Florida. In contrast, commercial construction exceeded year-ago levels in much of the District. Factory activity was mixed, with sluggishness reported in industries linked to residential housing and strength noted for defense contractors. Labor markets remained relatively tight, with continuing shortages of skilled workers in parts of the District. Price increases for some commodities and building supplies slowed, but several contacts noted

that fuel, labor, and insurance costs were accelerating. Drought and freezing temperatures damaged District crops in the early spring.

Consumer Spending

According to District retailers, sales rose modestly in March compared with a year ago, while traffic was not as robust as earlier in the year. Some merchants noted that higher temperatures in early spring boosted sales of warm weather apparel and lawn and gardening products. Most contacts indicated that they were pleased with current inventory levels and anticipated that sales growth will remain modest over the next several months.

District car sales continued to be mixed, with strong sales reports coming from import brand dealers while domestic brands lagged. Two major import distributors reported strong demand for fuel-efficient and economy models, which offset weaker performance from trucks and SUVs.

Tourism and Business Travel

Reports on the tourism and hospitality industry were generally positive. Contacts noted a stronger than expected spring break crowd this year in Florida and good summer pre-bookings. Foreign visitors continued to boost South Florida's tourist industry and several hotels have increased room rates. Casino revenues remained strong and were close to pre-Katrina levels on the Mississippi Gulf Coast. Most attractions and major hotels in New Orleans are reportedly open for business, and although visitor numbers remained below pre-Katrina levels, hotels reported 95 percent occupancy throughout the last weekend of Mardi Gras.

Real Estate

Most District real estate contacts reported that new and existing home sales were below year-ago levels in March. Reports from homebuilders in Florida indicated that the sales decline moderated in March, whereas Georgia builders experienced weaker sales. New home construction remained low in most areas, and many District builders anticipated further modest decreases in construction levels.

Existing home sales in the District were slightly weaker on a year-over-year basis. The majority of Realtors contacted anticipated that home sales will remain below year-ago levels over the next several months.

Reports from District commercial real estate contacts indicated that the pace of development during the first quarter exceeded year-ago levels. Most noted that backlogs were equal to or greater than at the same time last year. While some weakness was noted by several Florida contacts, the outlook among commercial developers in other parts of the District was mostly positive.

Manufacturing and Transportation

Manufacturing activity remained restrained, especially for industries linked to residential housing. In addition to reports of slowing demand among building materials manufacturers, the decline of new housing starts has slowed new orders for construction equipment. In

addition, a producer of heavy duty trucks noted lower orders, and the apparel industry continued to suffer as a large District producer announced further layoffs. More positively, a manufacturer of carpet tiles, mainly for commercial applications, reported strong demand. District firms continued to win defense contracts, and plans to further expand the auto and steel industries in Alabama were announced.

District transportation contacts reported weak freight demand in March through mid-April. A major regional rail company noted lower automobile and housing-related shipments.

Banking and Finance

Banking conditions in the District were generally stable. There was a slight increase in delinquencies and foreclosures, but contacts said that this was not a major problem for most District-based banks.

Employment and Prices

Contacts indicated that labor markets remained relatively tight in March and early April. Layoffs at some building material and apparel manufacturers were noted, but labor shortages were also reported in many parts of the District. For instance, a regional software maker has had to look overseas to recruit highly-skilled labor. Vacancies continued for nurses and teachers throughout the District, as well. Some reports of shortages for lower-skilled workers were also noted, especially in the hospitality industry. In South Florida, a shortage of affordable housing was said to be limiting the supply of low-skilled workers.

Prices for some building supplies declined during March and early April, whereas gasoline prices spiked higher. Several small service firms cited increased pressure to raise prices because of factors such as higher labor, fuel, health insurance, and property insurance costs.

Agriculture and Natural Resources

Drought-like conditions in Alabama, Florida, Georgia, and Mississippi have reportedly lowered the outlook for some crops. In addition, the early April cold snap seriously damaged several fruit and grain crops in Georgia, Alabama, and Mississippi.

Contacts reported that demand was very high for oil and gas service companies in the Gulf area, as deepwater exploration and new production remained high priorities for the major producers.

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Seventh District--Chicago

Economic activity in the Seventh District continued to expand at a modest pace between mid February and early April. Consumer spending and business outlays and hiring all rose at rates similar to those reported earlier in the year. Residential construction and real estate activity declined further in most areas, while nonresidential construction was unchanged from the previous report. Manufacturing activity firmed from the last reporting period. Household lending increased and the pace of commercial lending remained at a solid rate.

Overall, nonwage price pressures were little changed and wage increases were similar to those in the previous reporting period. Corn and soybean prices came down from recent highs, as the number of acres expected to be planted in corn this spring was the highest in a generation.

Consumer Spending

Consumer spending continued to increase at a gradual rate. Retailers said that March sales improved from a relatively weak February, although one contact noted that an early Easter probably contributed to this stronger showing. Unfavorable spring weather hurt sales of garden and outdoor equipment. Inventories rose in line with the usual seasonal build-up for the spring and summer selling seasons. Vehicle dealers reported slower sales overall and that rising gasoline prices were shifting the mix of sales towards more fuel efficient vehicles. One contact also reported that the weak housing market was causing consumers to pare back on the monthly payments they were willing to make when financing a new vehicle.

Business Spending

Business spending and hiring rose again in the District. Capital spending increased at a solid rate. A steel forging company noted that capital spending in its industry remained "pretty heavy" and that most firms were adding some capacity. Even with a declining residential sector, more wallboard capacity was being added this year, causing one producer to express concerns about further declines in utilization rates. Employment continued to increase gradually on net. Staffing firms reported continued small declines in billable hours in the Midwest, but that direct-hire and temp-to-perm hire activity remained very strong. The demand for manufacturing workers was mixed by industry. Wallboard producers were increasing hiring to staff the new plants coming on line. In contrast, auto suppliers and vehicle manufacturers continued to lay off workers. Retailers and banks said they were holding employment at current levels.

Construction and Real Estate

Residential construction declined again in most areas. In Indiana, a contact noted that many residential projects had been put on hold recently. Inventories of unsold high-end homes continued to be elevated. An industry analyst said the number of existing homes on the market was up relative to last year, especially in Michigan. Housing market traffic was increasing in the District as a whole, but contacts thought that converting this traffic into sales would likely be more difficult than usual. For example, an analyst from Chicago reported that home builders and sellers continued to offer incentives to attract buyers. Nonresidential construction remained stable from a year earlier. A developer from Chicago said that commercial rental rates and vacancy rates were little changed over the last quarter.

Manufacturing

Manufacturing activity firmed compared with the previous reporting period. A steelmaker reported steady demand in a "fairly good market." Although steel inventories remained somewhat elevated, they have been moving lower and contacts expected that stocks would be down to desired levels by the end of the second quarter. Manufacturers of machine tools and equipment parts reported solid demand, led by the aircraft, energy, defense, and medical sectors. Demand for some farm machinery was also strong. But contacts said that domestic

demand for heavy equipment overall - which they think peaked about a year ago - may have softened further in recent weeks. A major equipment producer put their retailers on "managed distribution" in order to lower inventories at the retail level. New truck orders from shipping companies remained weak, in part reflecting the increased costs of operating equipment that meets the new emissions requirements that took effect at the start of the year. The increased costs appear to be in the range of six to ten cents per mile. Industry analysts also said that trailer orders continued to be disappointing. One positive note for the truck producers has been increasing export demand, especially from Australia and Mexico. An automaker reported that the April selling rate is running below program, with cars performing a bit better than trucks. The weakness in residential construction continued to damp sales of wallboard with one producer characterizing that they are "bumping along the bottom."

Banking and Finance

Lending activity increased a bit from the previous reporting period. Mortgage applications for home purchases rose and applications for refinancing increased to the highest level since the fall of 2005, reflecting borrowers' desire to move from adjustable-rate to fixed-rate loans. Use of existing home equity credit lines continued to increase, but issuance of new home equity loans decreased. Overall mortgage and home-equity delinquency rates were little changed from the previous reporting period. One contact noted that they were continuing to tighten requirements on household loans. Business lending rose in most areas of the District except Michigan, where demand was described as "lackluster." The largest increase in demand was for C&I loans, while commercial real estate lending was more subdued. C&I credit quality was little changed at favorable levels, but a few contacts reported a modest deterioration in the quality of commercial real estate loans.

Prices and Costs

On balance, both nonwage price pressures and overall wage increases were similar to those in the previous reporting period. Raw materials prices were generally steady at high levels, although several contacts noted that certain metals prices were rising because of increased costs for nickel. A contact in Indiana said that higher cost for metals had lead to an increase in nonresidential construction prices in the past few weeks. Most manufacturers continued to indicate that they were able to pass along higher costs, while others, particularly auto suppliers, said they were pressured to keep prices low. Staffing services firms reported faster increases in pay rates for high-skilled positions while pay rates for low-skilled positions were remained flat.

Agriculture

Corn and soybean prices retreated in March and early April from very high levels earlier in the year. Contacts indicated that the acreage planted in corn this spring would be the largest in a generation. Recent cold weather and wet fields in parts of the District delayed planting; continued poor weather may prompt some farmers to switch acres from corn to soybeans. Higher milk and cattle prices helped dairy and livestock producers, in addition to lower feed costs. Hog prices were lower, though hog operations remained profitable. Farmers reported facing delays in receiving new farm machinery because dealers were low on inventories, and

prices went up for used machinery. Cash rents for available land were dramatically higher than a year ago. Competition in farm credit markets has been keeping borrowing rates down.

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Eighth District--St. Louis

The economy of the Eighth District expanded modestly in the period since our previous report. Manufacturing activity continued to soften, while in most industries the services sector continued to expand. Reports from retailers and auto dealers of sales in February and March were mostly positive. Home sales continued to be mixed across the District, while commercial real estate market conditions continued to improve. Total loans at a sample of small and mid-sized District banks increased slightly in the three-month period ending in March.

Manufacturing and Other Business Activity

Manufacturing activity has continued to soften since our previous survey. While some contacts reported plans to open plants and expand operations in the near future, a larger number of contacts reported plans to close plants or lay off workers. Firms in the motor vehicle, plastics, and machinery manufacturing industries announced plans to open or expand facilities in the District. A contact in the electronic product industry reported plans to hire additional workers. In contrast, contacts in the electrical equipment, furniture, apparel, food, and auto parts industries announced plans to close plants or lay off workers in the District.

The District's services sector continued to expand in most areas. Firms in the distribution, water transportation, and administrative and support services industries reported plans to build new facilities and hire additional workers. In contrast, a contact in the data processing industry announced plans to lay off workers. Reports from retailers have been mostly positive since our previous report. February and March sales of clothing were cited as particularly strong when compared with year-earlier sales. In contrast, several durable goods and big box retailers reported sales ranging from flat to down. Car dealers reported that sales in February and March increased, on average, compared with year-ago levels. Sales of used cars were particularly strong.

Real Estate and Construction

Home sales were mixed throughout the Eighth District. Compared with the same period in 2006, February 2007 year-to-date home sales were up 4 percent in Louisville and 2 percent in Little Rock. Year-to-date home sales were unchanged in St. Louis and declined 6 percent in Memphis. Residential construction was weak throughout most of the District. February 2007 year-to-date single-family housing permits fell in most metro areas compared with the same period in 2006. Permits declined 9 percent in St. Louis, 22 percent in Memphis, and 25 percent in Little Rock. Single-family housing permits, however, were up 15 percent in Louisville.

Commercial real estate markets have remained relatively strong throughout the District. Contacts in west Tennessee reported the commercial real estate market is gaining strength.

Contacts in south central Kentucky reported that commercial construction is strong, particularly in the Bowling Green area. Contacts in central Arkansas reported that large commercial contractors have a significant backlog of work for the remainder of 2007. In Louisville, commercial contractors indicated that the volume of work on the market for bids is high and that the strong development in the downtown area continues. Contacts reported that a large automobile plant is set to be constructed near Tupelo, Mississippi, and that a large industrial park is planned in west Memphis.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks increased 0.2 percent in the three-month period ending in March 2007. Real estate lending, which makes up 74.9 percent of total loans, increased 0.4 percent. Commercial and industrial loans, accounting for 17.0 percent of total loans, increased 0.7 percent. Loans to individuals, accounting for 4.5 percent of total loans, fell 1.3 percent. All other loans, approximately 3.6 percent of total loans, decreased 3.9 percent. Over this period, total deposits at these banks increased 2.5 percent.

Agriculture and Natural Resources

Farmers in the Eighth District reported that they expect to plant 20 percent more acres of corn, 76 percent more acres of sorghum, and 5 percent more acres of tobacco this year than in 2006. In contrast, they anticipate planting 11 percent fewer acres of soybeans, 30 percent fewer acres of cotton, and 12 percent fewer acres of rice than last year. This year's total winter wheat acreage increased by 25 percent from last year, and at least 85 percent of each District state's crop was reported to be in fair or better condition. However, subfreezing temperatures in the District over the Easter weekend left winter wheat crops especially vulnerable. At least three-fourths of the pastures in each District state were reported to be in fair or better condition.

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Ninth District--Minneapolis

The Ninth District economy grew firmly since the last report. Growth was noted in consumer spending, services, tourism, manufacturing, energy, agriculture and construction and commercial real estate. Residential construction and real estate activity decreased, and mining was flat. Labor market conditions gradually continued to tighten in a number of areas, and overall wage increases were moderate. Significant increases were noted in fuel and freight prices, while lumber prices were down from a year ago.

Consumer Spending and Tourism

Overall retail sales increased. Cold wintry weather slowed sales in late February, but several contacts noted a pickup in March, in part aided by an early Easter holiday. A major Minneapolis-based retailer expected same-store sales to be up about 5 percent in March and April compared with a year ago. A Minneapolis area mall manager reported that March sales of spring merchandise were solid. A mall manger in North Dakota noted that February

same-store sales were up about 2 percent compared with a year ago, but traffic picked up during March as stores promoted spring merchandise.

A representative of a Montana auto dealers' association reported that recent new car sales were down, but used car sales were very strong. Recent vehicle sales in North Dakota were mediocre, according to a representative of an auto dealers' association, but dealerships were more optimistic as spring approached.

Winter tourism activity improved since the last report, but was down overall from last year. Activity picked up significantly in the Black Hills area of South Dakota beginning in mid-February; however, the previous months were essentially a bust due to a lack of snow, according to a tourism official. Winter seasonal activity was down significantly from a year ago in northwestern Wisconsin, according to a representative of a chamber of commerce. Tourism and convention business in Duluth, Minn., was up about 4 percent during March compared with a year ago.

Services

Contacts from a variety of professional business service firms indicated that business activity increased compared with last year. In addition, many expect to expand operations over the next six months. A contact in the medical services area noted that expansion was constrained by difficulty in recruiting physicians. Contacts from architectural, administrative, legal, accounting, travel, investment, information security, and Web services reported strong growth and plan to add capital and labor inputs. However, a contact from the information technology area noted flat activity and is facing decreasing prices and excess capacity.

Construction and Real Estate

Heavy building increased since the last report. Commercial building permits in the St. Cloud, Minn., area were up significantly in the first two months of 2007 compared with the same period in 2006. Several retail and commercial building projects are planned or are under construction in southern Minnesota. Several industrial and numerous public projects are planned across the District. In contrast, residential construction decreased. Housing permits were down 54 percent in March compared with a year ago in the Minneapolis-St. Paul area. Several condo projects were stalled due to the crowded market. A former condo project became a retail/hotel project. However, in Williston, N.D., plans were announced for the first major housing subdivision in 30 years.

Commercial real estate was solid. A market research firm reported that office, industrial and retail vacancy rates declined in the Minneapolis-St. Paul area during the first quarter. In contrast, residential real estate activity decreased. Home sales were down 15 percent in the first quarter of 2007 compared with the same period a year ago in the Minneapolis-St. Paul area according to a Realtors' association.

Manufacturing

Activity in the manufacturing sector grew since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated increased manufacturing activity in Minnesota and North Dakota and flat activity in South Dakota. In

Minnesota, a concrete product producer is expanding. In North Dakota, a metal fabricator plans to add a facility, and a manufacturer of hydraulic press brakes plans to expand. In South Dakota, a meat packer plans to expand, while a metal parts producer shut down. Many lumber mills across the District have reduced production due to decreased demand.

Energy and Mining

Activity in the energy sector increased since the last report, and mining was flat at high levels. Several wind energy projects are either planned or in development, and a wind blade manufacturing facility recently opened in South Dakota. Oil and gas exploration in the District was level with previously reported amounts. Mining production remained at near capacity across the District. High metal prices were aiding the mining industry as mining officials expect strong production in 2007. However, a coal mine in Montana was idled in late February.

Agriculture

Spring moisture boosted the outlook for the agricultural sector. Although drought is evident in some parts of the District, increased rainfall aided soil conditions for many producers. Demand for farm machinery is increasing, according to farm implement dealers. District producers are expected to significantly increase plantings of corn and decrease plantings of soybeans, according to the U.S. Department of Agriculture.

Employment, Wages and Prices

Labor market conditions gradually continued to tighten in a number of areas. A Montana bank director noted that the most common complaint he hears from businesses around the state is a shortage of workers. A staff member of a career center in Sioux Falls, S.D., noted tight area labor markets with growth in technical jobs that require two- and four-year degrees. In Minnesota, a major food retailer plans to relocate 400 positions to its headquarters in the state, while a household appliance manufacturer plans to rehire 130 recently laid-off employees. A credit card service center in South Dakota recently announced plans to hire 100 employees over the next year, and a call center in Montana plans to hire over 100 employees.

In contrast, as a result of company acquisitions, a financial services company is cutting 170 back-office positions, and a wireless company is planning to cut as many as 100 jobs in Minnesota. In northwestern Wisconsin, a circuit plant recently announced plans to lay off 160 workers. A survey of CFOs in the Minneapolis-St. Paul area showed that 92 percent expect no change in hiring during the second quarter.

Wage increases were generally moderate. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 46 percent expect to increase employee compensation over the next six months, down from 50 percent in last year's survey.

Significant increases were noted in fuel and freight prices, while lumber prices were down from a year ago. Minnesota gasoline prices increased 23 cents per gallon from early March to early April. Diesel prices in the Midwest increased about 12 cents from early March to early April. Bank directors noted that rail transportation rates will likely increase in 2007,

but not as much as in recent years, and that lumber prices were down about 20 percent from a year ago.

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Tenth District--Kansas City

The Tenth District economy expanded moderately in March and early April. Consumer spending rebounded after slowing earlier in the year, and labor markets expanded solidly. Agricultural conditions also improved, and commercial real estate activity increased. On the other hand, residential real estate remained weak, growth in manufacturing activity slowed, and energy activity eased slightly. Wage pressures edged higher, and many materials prices also increased. However, retail price pressures generally remained modest.

Consumer Spending

Consumer spending expanded solidly in March and early April. Retail activity rebounded from a largely weather-related slump in previous months, and sales were above year-ago levels in most stores and restaurants. Apparel sales were particularly strong, while purchases of home-related items remained weak. Retailers generally expected strong sales growth in the months ahead, though some expressed concern about rising gasoline prices. Auto dealers reported that vehicle sales also increased from the previous survey and were similar to year-ago levels. Truck sales remained sluggish, but demand for most other types of vehicles was strong, and all dealers expected further improvement in the months ahead. Travel and tourism activity expanded solidly in March and early April. Hotels in energy-intensive areas of the District noted strong demand. Rocky Mountain ski resorts also reported strong visitor counts and increased spending from a year ago, and most tourism contacts anticipated favorable growth heading forward.

Manufacturing

Growth in manufacturing activity slowed in March and early April. Most plant managers reported only small increases in output and shipments compared with previous months, and production of residential construction-related materials declined. In contrast, strength was noted among manufacturers of agriculture- and energy-related products, aircraft, and primary metals. Capital spending plans generally remained solid, with slight increases planned at some firms. Most plant managers expected strong factory activity in the coming months, due in part to projected growth in exports, particularly for semiconductors and beef. However, recent increases in some materials prices put pressure on profits of several manufacturers that were not able to raise output prices as quickly.

Real Estate and Construction

Residential real estate activity remained weak in most District cities, while commercial real estate activity showed solid gains. Builders in most cities reported that residential construction remained sluggish, and they generally expected home starts to remain flat in the months ahead. An oversupply of houses persisted in most of the District, with the exception of areas heavy in energy-related activity. Residential home sales were unchanged overall from the previous survey and still down from a year ago. Homes in the low-to-mid-level

price range were said to be selling relatively well, while sales of high-end homes were generally characterized as weak. Most real estate agents anticipated solid growth in home sales heading forward and inventories to gradually return to normal levels. Home prices were largely unchanged from a year ago and were expected to remain steady in the coming months. Commercial real estate activity improved since the previous survey. Vacancy rates fell in most cities, while absorption rates and prices for office space increased. Commercial construction also rose, especially for public works projects, following a period of little growth. Commercial real estate agents generally expected further gains in absorption, construction, and office prices in the near future.

Banking

Bankers reported that both loans and deposits were unchanged since the last survey. Demand for commercial, industrial, and commercial real estate loans edged up, while demand for residential mortgage loans declined. On the deposit side, CDs were slightly higher than in the prior period, while NOW accounts were weak. Lending rates and lending standards were unchanged.

Energy

Energy activity slower further in March and early April but remained at a relatively high level. The District rig count was down from the previous survey period and from a year ago. The recent decline was offset somewhat by the opening of some land for drilling on the western slope of Colorado. Most contacts attributed the overall recent decline in rig activity to increased drilling costs. However, contacts still reported high demand for auxiliary services associated with drilling, such as cement casing, formation evaluation, and well stimulation. Most energy contacts expected solid activity to continue, as long as futures prices remain high.

Agriculture

Agricultural conditions improved since the previous survey period. Heavy rains and snow eased drought conditions across the District. The winter wheat crop was in good to very good condition, though a recent freeze may lower yields in parts of Kansas and Oklahoma. Higher corn prices caused a shift in the crop mix toward corn production. Harsh winter weather limited cattle weight gains and forced livestock operators to use supplemental feed. A recent rebound in cattle prices improved profit margins for livestock producers. While rising farm income expectations have boosted cash rents and farmland values, farmers remain somewhat cautious about capital spending plans.

Labor Markets and Wages

Labor markets expanded solidly in March and early April, and wage pressures rose after easing in the previous survey. Hiring announcements outpaced layoffs by a sizeable margin, especially in manufacturing and business services. The majority of firms continued to report labor shortages, especially for IT, skilled manufacturing, service, sales, and energy-related workers. Wage pressures returned to previous high levels after easing slightly earlier in the year. To ensure sustained productivity, some firms reported moving to a salary structure that adds a performance-based payment to a base wage.

Prices

Retail price pressures remained modest, but prices for most input materials increased. The majority of retail contacts reported flat selling prices. However, a few retailers expected prices to increase heading forward. Building contractors reported increases in most materials, including asphalt, concrete, steel, and copper. However, lumber prices were forecasted to decline in the months ahead. The share of manufacturers reporting rising materials costs continued to grow, and most firms expected further increases, particularly for steel, oil-based products, and food inputs. However, the share of factories raising finished goods prices fell slightly, as some firms were unable to pass-through recent cost increases.

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Eleventh District--Dallas

The Eleventh District economy expanded at a moderately strong pace in March and early April. Service sector activity was slightly stronger than in the last report. Consumer spending strengthened and was stronger than expected. Energy activity is still robust, but growth continues to cool. Manufacturing continued to expand at a moderate pace. Agricultural conditions have improved.

The construction industry decelerated more sharply from its vigorous growth of the past year. Real estate markets continue to weaken and, while a substantial amount of building is finishing up, industry contacts expressed concerns about the large inventory of homes and growing supply of offices and apartments. The financial services industry reports that consumer lending continues to soften and a greater percentage of potential borrowers are not qualifying for loans. Commercial lending remained strong, but growth is moderating.

Contacts in many industries expressed cautious optimism about the outlook, noting uncertainty about the effects of problems with subprime lending, home foreclosures and softening real estate markets. Firms doing business nationwide say economic activity in Texas continues to be stronger than in the rest of the country.

Prices

Energy prices remain high and a concern for many industries, putting upward pressure on costs and selling prices. Shipping costs continue to increase to accommodate higher costs for fuel, labor and port fees.

West Texas Intermediate crude oil prices hovered around \$60 per barrel during the period, and U.S. inventories fell moderately. Natural gas prices remained around \$7 per million Btu, supported by cold weather and rising crude prices. Cold weather reduced inventories of natural gas to about 8 percent below last year's level. However, they remain 25 percent higher than the 5-year average for this time of year. Gasoline prices rose over 40 cents per gallon, pushed up by strong demand and declining inventories. The increase was more than expected on the basis of crude oil prices alone.

Some manufacturers, such as food and transportation equipment, reported rising prices or expectations for higher prices, pushed up by higher input and wage costs. Petrochemical

prices rose, boosted by a combination of strong demand and/or higher feedstock prices. Selling prices are falling for other factory products. Softening demand is intensifying competition and putting downward price pressure on most construction-related materials, despite high or rising costs for energy, transportation and raw materials.

Labor Market

Labor markets remain very tight, and some contacts say the labor shortage has intensified. Numerous firms report difficulty finding qualified workers, such as welders, engineers, truck drivers, certified mechanics and financial professionals. Wages are rising in some instances, but in others--such as for lower-skilled jobs in the Austin area--firms say they are understaffed because they can not operate profitably if wages were increased high enough to attract workers.

Layoffs continued to be reported by home builders and some manufacturers, particularly those supplying the construction industry. While downward wage pressure is found in these industries, some firms laying off workers also report difficulty hiring some types of skilled workers and upward pressure on wages for those positions.

Manufacturing

Overall manufacturing activity expanded at a moderate pace. There was little change in demand for paper and food products. Transportation equipment manufacturers reported continued strong demand, with some noting low inventory and a backlog of orders.

Construction-related manufacturing was generally weaker over the past six weeks, although a number of firms said sales growth was unchanged and a few reported a pickup. Softer sales were mostly the result of slowing residential construction, although sales for commercial building have become less robust. A few firms reported that Texas activity picked up in March after unfavorable weather delayed projects in January and February.

High-tech manufacturers reported that growth in sales and orders has been the same or slightly higher since the last survey. There has been some increase in inventories although most respondents say they are close to desired levels. The industry expects sales and orders to remain close to their current moderate pace.

Petrochemical sales increased, boosted by continued strong international and improving domestic demand. Domestic demand has been strong for synthetic rubber. After a slow return from scheduled maintenance, Gulf Coast refineries are now operating at over 90 percent utilization.

Services

Demand for temporary staffing services picked up slightly over the past six weeks. Firms said there was an increase in orders from manufacturing firms and continued strong demand for workers in accounting, administrative, legal and IT services.

The accounting industry reported an increase in demand for their services. Contacts in the legal industry said there was a slight increase in activity, with more corporate and real estate

transactions and a drop in work to support bankruptcies. Despite higher costs for wages, insurance and utilities, law firms said they were facing difficulty raising client fees.

The airline industry reported very strong international demand. Domestic activity is good with high load factors, but carriers reported various pockets of weakness in bookings. Capacity is creeping back into the industry, they say, limiting fare increases even though fuel and labor costs are rising.

Railroad cargo volume is strong but softened slightly over the past month. Increased shipments of chemicals and petroleum products partly offset dramatic decreases in volumes of lumber, wood and building products supplying the housing industry. Railroads are working near capacity, and contacts say the industry may not be able to accommodate continued strong volume growth. Trucking volumes increased over the past month, and growth is expected to pick up this year to accommodate shipments railroads are unable to handle because of limited capacity. Small parcel shipping firms say the volume of activity remains solid but continues to decelerate. Container trade volumes climbed over the past month, primarily because of a rise in steel shipments and opening of a new port facility which is attracting foreign traffic.

Retail Sales

Sales increased at a good pace in March, particularly at stores serving higher income consumers. Growth was stronger than expected at several firms, even after adjusting for the timing of Easter compared to last year. Contacts say consumers are spending less of their budget on discretionary and luxury items. Still some retailers were able to raise selling prices and grow margins despite rising input costs. Sales slowed in April, but contacts remain cautiously optimistic that cool weather is temporarily dampening activity. Retailers with revolving credit say delinquencies have increased, but customers are not defaulting. Auto sales met expectations, according to dealers, but there are still high inventories for some types of vehicles.

Construction and Real Estate

Home sales continue to weaken, but demand remains good by historical standards. Contacts say slowing sales is partly the result of tighter lending standards, and cancellations are up sharply. In some instances potential buyers were unable to sell their existing home in another state, such as California or Florida. Inventories are rising for both homes and building lots. While existing home inventories are moderate by historical standards, there is a sizeable supply of new homes, particularly in the Dallas, Fort Worth and Austin areas. Builders are significantly curbing home starts, as the glut of new home inventory is pushing down prices and increasing incentives.

Apartment demand has been unexpectedly sluggish, particularly in Houston and Dallas. Rents are unchanged or up slightly in most markets, with the notable exception of Austin, where occupancy rates are high and rents rising. A significant amount of new construction is underway in most metropolitan areas, and the leasing environment is expected to become more competitive, with even the Austin market expected to soften.

Office leasing slowed over the past six weeks, although rents are still rising. Contacts remain optimistic but note a lot of speculative projects are coming online that may cause occupancy

and rental rate increases to level off. Construction of a speculative Class A office building is being considered in Houston. Dallas contacts say investment activity is very aggressive, but investors are expected to pull back if rental growth does not accelerate.

Financial Services

Commercial lending remains strong and ahead of a year ago, but growth is moderating. Credit quality is solid, according to contacts, who say pricing remains extremely competitive, and new players continue to enter the market. Consumer lending has softened, with weakness in auto and real estate loans. Lenders say a greater percentage of loans are being declined because applicants are not meeting lending requirements.

Energy

Energy activity remains robust, but its growth continues to calm from the frantic pace of the past couple of years. The U.S. and Texas rig counts remain at historically high levels, but growth rates are slowing. A number of new rigs are entering the market and putting downward pressure on day rates. Older rigs are being refurbished, repaired, or stacked to await new work.

Slower growth in drilling has allowed the supply of equipment and services to catch up some, which has reduced their prices. Still, backlogs are long, delivery of equipment can be slow and pricing remains highly profitable. High cost of engineering and construction continues to be a barrier to expansion, causing many projects to be delayed or cancelled.

Rigs are leaving the Gulf of Mexico, attracted by higher rates in the international market. High costs and a very high natural gas inventory are encouraging activity to move to a strong and expanding international market-where there are large scale, long-lived, high-margin projects backed by investors with deep pockets.

Agriculture

Heavy rain improved soil moisture and spring planting conditions. Texas corn acreage is expected to be 14 percent above last year, with less planting of cotton and other crops. Increased demand for ethanol has driven up corn prices and encouraged production.

Higher corn prices and tight hay supplies have raised feed costs and pushed down calf and feeder cattle prices. While fuel and feed costs remain a concern, producers say livestock conditions have improved because rain increased forage availability and reduced the need for supplemental feeding.

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Twelfth District--San Francisco

The Twelfth District economy expanded at a moderate pace during the survey period of March through mid-April. Overall price inflation was modest and wage pressures eased in some industries, although wage increases remained significant for workers with specialized skills in selected sectors. Retailers reported moderate sales gains on net, with robust gains

reported for service providers. Manufacturers reported mixed conditions, while sales grew further for agricultural producers. Housing markets cooled further in most areas, but activity in commercial real estate markets continued to pick up. District banks saw solid growth in loan demand with the exception of residential mortgages.

Wages and Prices

Reports from District contacts indicated that overall price inflation was modest during the most recent survey period. Price declines for selected construction materials such as lumber and steel and for products in very competitive markets, notably apparel and electronic goods, held down overall inflationary pressures. By contrast, prices of selected inputs used in food processing, particularly corn and wheat, continued on their upward march, although contacts noted producers' limited ability to pass rising input prices on to final prices in this industry.

Growth in labor compensation remained moderate overall. Previously tight labor market conditions in the construction and agricultural sectors eased, partly alleviating the upward wage pressures in those sectors. However, shortages continued for workers with specialized skills in various sectors and in areas with especially tight labor markets, notably Hawaii, Idaho, and Utah, keeping compensation growth rapid for these worker groups.

Retail Trade and Services

District retail sales grew at a moderate pace on net in most areas. Sales grew compared with a year earlier at department stores and other major retail chains, and robust sales were reported among purveyors of luxury retail items. By contrast, demand fell further for products used for home improvement and construction. Sales of new autos and light trucks showed little change from the previous survey period, and imported vehicles continued to fare better than domestic models. Demand for used vehicles reportedly was solid and prices firmed.

Most service providers saw robust demand, with especially strong sales for providers of food and beverage and health-care services. Travel and tourism activity was brisk in key District locales, with high hotel occupancy rates reported in the broad Southern California region. However, hotel occupancy rates in Hawaii during the spring break period were down relative to the very high levels of the past few years, continuing the trend towards lower occupancy rates established earlier this year.

Manufacturing

District manufacturers reported mixed conditions during the survey period of March through mid-April. Producers of commercial aircraft and their suppliers continued to operate near full capacity to meet growing order backlogs, and sales grew a bit further for products related to national defense. Apparel and food manufacturers reported strong sales. Demand was "spotty" for makers of industrial equipment, as rising demand related to public works projects was largely offset by weakness emanating from the residential construction and logging sectors. Semiconductor sales were up compared with a year earlier but weakened slightly relative to the previous survey period, and capacity utilization in the sector edged down. Manufacturers and respondents in other industries generally indicated plans for

modest growth in capital spending this year relative to 2006, with a focus on information technology and related equipment aimed at productivity enhancement.

Agriculture and Resource-related Industries

Demand for agricultural products grew further. Contacts reported increased sales for a variety of crops and dairy products. However, California lettuce growers reported lackluster demand due in part to lingering food safety concerns arising from that crop's bacterial contamination last fall. Prices on agricultural inputs generally were stable, with the notable exception of significant price increases for corn and wheat used for livestock feed.

Real Estate and Construction

Conditions in residential real estate markets generally remained weak, but activity in nonresidential markets picked up further. In most areas, sales volumes for new and existing homes continued to fall and average time on the market continued to rise. Price appreciation slowed accordingly, with modest price declines evident during the survey period in some parts of the District. However, despite weak demand for new homes, contacts noted that many developers are not putting undeveloped land up for sale, suggesting that they expect the market weakness to be limited to the short term. Moreover, contacts in some areas noted recent signs of stabilization in the pace of home sales and price appreciation, along with a construction pickup for multifamily buildings. On the nonresidential side, vacancy rates for commercial space continued their gradual decline and rental rates rose further in most District cities. Construction activity for commercial and public projects expanded in some areas, largely offsetting declines in residential construction activity and thereby preventing significant declines in construction employment in those areas.

Financial Institutions

District banking contacts reported that loan demand was solid overall. Growing demand for commercial and industrial loans continued to offset ongoing declines in residential mortgage lending. Despite signs of deteriorating credit quality for real estate loans, primarily for subprime mortgages, credit quality in general remained at favorable levels. One banking contact reported that residential mortgage lenders have been discounting assessed home values when making new mortgage loans. Contacts noted ample availability of venture capital and funds for private equity financing.

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