Beige Book

April 26, 2006

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

Summary

Reports in the Federal Reserve Bank of Boston and based on conditions collected on or before April 17 indicate that economic activity has continued to expand at a moderate pace in the First District since mid-February.

Manufacturing activity has continued to expand at a moderate pace in recent months. Contacts in a number of sectors, although they have also reported increases in input costs, are relatively optimistic about their manufacturers' results this quarter. Price and volume data are mixed. Retailers in the region have reported that sales have been flat to slightly higher since mid-February. Auto dealers have reported that sales have been slow. Tourism activity has been strong, with increases in visitors to Boston, Cape Cod, and the Berkshires.

Consumer Spending and Tourism

Retailers in the region have reported that sales overall last Richmond and Cleveland experienced a pickup in manufacturing in early March. New York, Philadelphia, Atlanta, Chicago, and San Francisco noted little change in the pace of manufacturing activity this past quarter, although most of these districts have been overwhelmed by heavy rainfall in March. Dallas, Kansas City, Minneapolis, and St. Louis reported that the pace of activity quickened since the beginning quarter. Reports on capital spending were generally positive.

Auto sales were mixed across the Districts. Many Districts report that sales were down at the beginning of the quarter relative to the end of last year. Dallas, Kansas City, and Minneapolis noted that sales were strong in March. Chicago, Atlanta, and Dallas also noted that sales of heavy trucks were strong. Chicago, Atlanta, and Dallas are the only three Districts mentioning strength in the housing market.

Most of the reports on retail sentiment are positive. Atlanta, Richmond, Chicago, and Kansas City noted that retailers are optimistic about the second quarter. Dallas reports a mixture of pessimism and optimism. Minneapolis reports that retailers are relatively pessimistic.

Retail inventory control is more a generally efficient than inefficient. Richmond, Atlanta, Chicago, and Kansas City noted that inventories were lean. Dallas, Minneapolis, and San Francisco both cite high levels of retail inventories. Cleveland, Atlanta, Chicago, and Kansas City noted that prices were rising. Dallas, Minneapolis, and San Francisco noted that prices were falling.

Reports on the current state of retail activity are mixed. Atlanta, Chicago, and Kansas City noted that activity was strong. Dallas, Minneapolis, and San Francisco noted that activity is weakening, while the rest of the Districts report that activity is flat. Reports on expectations for the second quarter are positive. Richmond, Atlanta, Chicago, and Kansas City noted that retailers are optimistic about the second quarter. Dallas reports a mixture of optimism and pessimism. Minneapolis reports that retailers are relatively pessimistic.

Tourism activity has been strong. Boston, Richmond, Atlanta, Chicago, and Kansas City reported increases in tourism. Dallas reports that tourism activity is flat. Minneapolis reports that tourism activity is down. In the Minneapolis District, tourism activity is down because of the cancellation of the Grand Portage Rendezvous Days festival.

Service Industries

Reports on activity in the nonfinancial services sector are mixed but skewing the first quarter relative to a year ago. Reports are mixed as compared to the Richmond, St. Louis, and San Francisco Districts. Reports are positive relative to a year ago in the Boston, Philadelphia, Richmond, St. Louis, and Dallas, while San Francisco notes mixed conditions relative to a year ago.

Temporary help services in the New York, Philadelphia, Minneapolis, and Dallas Districts report modest increases in demand. Growth in the first and second quarters is expected to be moderate. Demand for temporary help services is reported to be flat in the Richmond, Atlanta, and Chicago Districts.

Transportation services are flat, based on the quarter, according to reports from the Atlanta, Chicago, Minneapolis, Kansas City, and San Francisco Districts. Reports from the Philadelphia, Richmond, and Dallas Districts indicate that activity has increased relative to the first quarter of last year. Reports from the Cleveland District indicate that activity has been down.

Health Care

Reports on health care spending and its implications for district economies are mixed, with no consistency in atmosphere—significantly in some areas and positively or negatively in others. Most reports indicate that spending is up, but not by much, and that the rate of increase is slowing. Some reports indicate that spending is down, and a few indicate that spending is flat. Reports on the implications of health care spending for the economy are also mixed.

Modest Districts were among the expanding production of steel constituents (pipes, stainless steel, aircraft aluminum, and boxes). Reports on capacity for trucking ranged from the "Chicago area is tight" to "Kansas City is loose." Reports on the availability of skilled labor for trucking, which is increasing overall, but tight (which, such as Dec. with some signs of recovery) and Minneapolis reported that the labor market is tight. Reports on the availability of unskilled labor for trucking were mixed, with Kansas City reporting that it is tight and Minneapolis reporting that it is loose.

Although several Districts describe labor demand in the manufacturing sector as mixed, most Districts report that labor demand is strong. Boston, Richmond, Atlanta, and Minneapolis mention moderate, if localized wage pressures during the past and anticipated quarters, and Chicago reports that wages are rising at a faster pace than in the past. Reports from Boston, Philadelphia, Richmond, St. Louis, and Dallas, while San Francisco notes mixed conditions relative to a year ago.

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Banking and Finance

Reports on banking activity are mixed, as most Districts reporting on financial services continue to see decreases in demand for consumer loans and residential mortgages, coupled with increases in commercial and industrial loans. Reports from the Boston, Richmond, Atlanta, Chicago, and Kansas City Districts indicate that demand for consumer loans is down. Reports from the Philadelphia, Cleveland, Minneapolis, Kansas City, and San Francisco Districts indicate that demand for consumer loans is up. Reports from the Boston, Richmond, and Atlanta Districts indicate that demand for residential mortgages is down. Reports from the Philadelphia, Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco Districts indicate that demand for residential mortgages is up. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for commercial and industrial loans is up. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for commercial and industrial loans is down.

Wide ranges of credit quality are noted to cover the Fourth Districts's economy, as many Districts report that credit quality is stable or improving. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that credit quality is stable or improving. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that credit quality is declining. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that delinquency rates are stable or declining. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that delinquency rates are increasing.

Agriculture and Natural Resources

Reports on the current state of agriculture are also reflecting agricultural producers in a positive manner. Most reports indicate that crop yields for drought-stricken 2005 are expected to be significantly increased goverthand and crops in the Richmond, Atlanta, Chicago, Kansas City, Minneapolis, and San Francisco Districts. Reports from the Philadelphia, Cleveland, and Dallas Districts indicate that crop yields are down. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that the current state of agriculture is positive. Reports from the Philadelphia, Cleveland, and Dallas Districts indicate that the current state of agriculture is negative. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that the outlook for agriculture is positive. Reports from the Philadelphia, Cleveland, and Dallas Districts indicate that the outlook for agriculture is negative.

A number of Districts, including Cleveland, Richmond, and Dallas, cite high energy prices as a factor in the current state of agriculture. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that the current state of energy is positive. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that the current state of energy is negative. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that the outlook for energy is positive. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that the outlook for energy is negative.

Natural resource firms from New York, Richmond, Kansas City, and Dallas report that business conditions are positive. Reports from Philadelphia, Cleveland, and Minneapolis indicate that business conditions are negative. Reports from Richmond, Kansas City, and Dallas indicate that business conditions are positive. Reports from Philadelphia, Cleveland, and Minneapolis indicate that business conditions are negative. Reports from Richmond, Kansas City, and Dallas indicate that business conditions are positive. Reports from Philadelphia, Cleveland, and Minneapolis indicate that business conditions are negative.

Prices/Business Costs

Reports on price trends are mixed. Most Districts reporting on business activity continue to see increases in demand for consumer loans and residential mortgages, coupled with increases in commercial and industrial loans. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for consumer loans is down. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for consumer loans is up. Reports from the Boston, Richmond, and Atlanta Districts indicate that demand for residential mortgages is down. Reports from the Philadelphia, Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco Districts indicate that demand for residential mortgages is up. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for commercial and industrial loans is up. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for commercial and industrial loans is down.

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Wages and Employment

Reports on wage trends are mixed. Most Districts reporting on business activity continue to see increases in demand for consumer loans and residential mortgages, coupled with increases in commercial and industrial loans. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for consumer loans is down. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for consumer loans is up. Reports from the Boston, Richmond, and Atlanta Districts indicate that demand for residential mortgages is down. Reports from the Philadelphia, Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco Districts indicate that demand for residential mortgages is up. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for commercial and industrial loans is up. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for commercial and industrial loans is down.

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First District--Boston

Economic activity in the First District increased at April. Manufacturers reported that business conditions improved in March, while retailers reported that business conditions were flat to slightly up. Auto sales were reported to be slow. Tourism activity has been strong, with increases in visitors to Boston, Cape Cod, and the Berkshires.

Third District business contacts generally viewed business activity in the region as moderate to expand at a moderate rate. Manufacturers report increases in revenues moving up at an elevated pace, while retailers report that sales have been flat to slightly higher since mid-February. Auto dealers have reported that sales have been slow. Tourism activity has been strong, with increases in visitors to Boston, Cape Cod, and the Berkshires.

Manufacturing

Reports on manufacturing activity in the Third District reported increased demand for their products in March, according to reports from a number of manufacturers. Overall, activity in the sector appeared to be growing at about the same pace as it did in February. Manufacturers reported increases in revenues and orders, although the pace of increases was slower than in February. Manufacturers reported increases in input costs, but were relatively optimistic about their companies' results this quarter. Price and volume data are mixed. Manufacturers reported a slowdown in the District's major manufacturing sectors.

Retail

Retailers in the District reported moderate increases in sales in March, according to reports from a number of retailers. Overall, retailers reported that sales were flat to slightly higher since mid-February. Retailers reported that the weather was unseasonably warm in March, leading to higher-than-expected sales of spring merchandise. Retailers reported that the warm weather also led to lower-than-expected sales of winter merchandise. In general, retailers reported an increase in Mondays-to-month sales.

Housing

Reports on the District's real estate market were mixed in March. Contacts in the Boston area reported that the market was slow, while contacts in the Cape Cod area reported that the market was strong. Contacts in the Berkshires reported that the market was slow. Contacts in the Providence area reported that the market was strong.

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Fourth District--Cleveland

Reports on the economy in the Fourth District were mixed. Manufacturing activity was generally positive, although the pace of expansion was slower than in recent months. Retail sales were generally flat. Auto sales were weak. Commercial activity was reported to strengthen. Bright spots in the economy were the energy and agricultural sectors. Residential real estate activity was reported to be slowing. Labor markets were generally tight, and wage pressures were reported to be building. Price pressures were reported to be intense, but not widespread. Overall, the economy is reported to have grown at a moderate pace since the last report.

Manufacturing

Manufacturing activity was reported to be mixed in March and early April, though most reports indicated that the pace of growth slowed somewhat from earlier in the year. Steel producers reported that shipments were down in March, but that they expected activity to pick up in April. Auto producers reported that production was down in March, but that they expected production to increase in April. Producers of nonferrous metals reported that shipments were down in March, but that they expected shipments to increase in April. Producers of fabricated metals reported that shipments were up in March, and that they expected shipments to remain strong in April. Producers of machinery reported that shipments were down in March, but that they expected shipments to increase in April. Producers of electronics reported that shipments were down in March, but that they expected shipments to increase in April. Producers of chemicals reported that shipments were down in March, but that they expected shipments to increase in April. Producers of rubber and plastics reported that shipments were down in March, but that they expected shipments to increase in April.

Retail

Retail sales were generally flat in March and early April. Auto sales were weak. Sales of general merchandise were reported to be flat. Sales of apparel were reported to be flat. Sales of furniture were reported to be flat. Sales of building materials were reported to be flat. Sales of food were reported to be flat. Sales of gasoline were reported to be flat. Sales of other retail items were reported to be flat.

Commercial Activity

Commercial activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Energy

Energy activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Agriculture

Agricultural activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Real Estate

Real estate activity was reported to be slowing in March and early April. Contacts reported that the pace of activity had decreased since the last report. Contacts reported that the pace of activity was expected to decrease in the next six months. Contacts reported that the pace of activity was expected to decrease in the next twelve months.

Labor

Labor markets were reported to be tight in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Wages

Wage pressures were reported to be building in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Prices

Price pressures were reported to be intense in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

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Fifth District--Richmond

Fifth District business activity expanded at a somewhat greater pace since our last report, as manufacturing, retail, and service sectors all reported increases. Manufacturers and service sector establishments said that shipments and new orders rose broadly in March and early April, and retailers reported that sales were strong over the Easter weekend. Contacts remained optimistic about the near-term outlook, and most expected that sales would continue to grow at a solid pace. Hiring activity continued strong in the manufacturing and service sectors, and retailers reported that they had increased their staffs to meet heightened demand over the Easter weekend. Wage increases were generally reported to be moderate, although some contacts noted that they were having difficulty finding skilled workers and were offering higher wages to attract them. Prices continued to rise at a rapid pace, with many contacts reporting that they had passed on increases in energy and materials costs to their customers.

Service

Reports indicate that service sector activity picked up somewhat since our last report. Revenues were widespread across industries, and most expected increases in revenues and hiring over the next six months. Contacts reported that they had increased wages to attract and retain workers, and they expected wages to rise at a faster pace in the coming months.

Retail

Fifth District retailers continued to report strength, due in March and the first half of April. Contacts reported that sales at Richmond and Easter were higher than last year, and that they expected business to remain strong in the coming months. Retailers reported that they had successfully become higher-priced items and were continuing to raise their prices, and they expected to be able to pass on future increases in their costs to consumers. Retailers reported that they had increased their staffs to meet heightened demand over the Easter weekend, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Manufacturing and Transportation

Manufacturing activity increased somewhat since our last report, as shipments and new orders expanded in March. Revised assessments of an expansion of an aerospace firm and a new automobile assembly plant in the region were the most significant announcements since our last report. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Transportation and Tourism

Tourism activity increased modestly in March and early April, according to most reports. Hotels reported that occupancy rates were higher than last year, and that they expected business to remain strong in the coming months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Banking and Finance

Reports on banking activity were mixed, as most Districts reporting on financial services continue to see decreases in demand for consumer loans and residential mortgages, coupled with increases in commercial and industrial loans. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for consumer loans is down. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for consumer loans is up. Reports from the Boston, Richmond, and Atlanta Districts indicate that demand for residential mortgages is down. Reports from the Philadelphia, Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco Districts indicate that demand for residential mortgages is up. Reports from the Boston, Richmond, Atlanta, Chicago, Kansas City, and San Francisco Districts indicate that demand for commercial and industrial loans is up. Reports from the Philadelphia, Cleveland, Minneapolis, and Dallas Districts indicate that demand for commercial and industrial loans is down.

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Sixth District--Atlanta

Reports from contacts in the Sixth District's economy were mixed overall in March and April. Merchants experienced moderately increasing sales, while a flower sales were fully disrupted by heavy rains and flooding. Manufacturers reported increasing sales and new orders, while tourism activity was reported to be slowing. Residential real estate activity was reported to be slowing, while commercial real estate activity was reported to be increasing. Labor markets were reported to be tight, and wage pressures were reported to be building. Price pressures were reported to be intense, but not widespread. Overall, the economy is reported to have grown at a moderate pace since the last report.

Finance

Reports from contacts indicate that lending activity grew more slowly in March and the first half of April. Contacts reported that loan demand was down relative to the same period last year, while others noted that loan demand was down relative to the previous month. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Real Estate

Reports from contacts indicate that housing activity grew more slowly in March and the first half of April. Contacts reported that sales were down relative to the same period last year, and that they expected sales to remain flat over the next six months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Retail

Reports from contacts indicate that retail sales grew more slowly in March and the first half of April. Contacts reported that sales were down relative to the same period last year, and that they expected sales to remain flat over the next six months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Manufacturing and Transportation

Manufacturing activity increased somewhat since our last report, as shipments and new orders expanded in March. Revised assessments of an expansion of an aerospace firm and a new automobile assembly plant in the region were the most significant announcements since our last report. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Transportation and Tourism

Tourism activity increased modestly in March and early April, according to most reports. Hotels reported that occupancy rates were higher than last year, and that they expected business to remain strong in the coming months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

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Seventh District--Chicago

Economic activity in the Seventh District increased at a moderate pace since the last report. Manufacturing activity grew at a solid pace, while retail sales were mixed. Auto sales were weak. Commercial activity was reported to strengthen. Bright spots in the economy were the energy and agricultural sectors. Residential real estate activity was reported to be slowing. Labor markets were generally tight, and wage pressures were reported to be building. Price pressures were reported to be intense, but not widespread. Overall, the economy is reported to have grown at a moderate pace since the last report.

Manufacturing

Manufacturing activity increased at a solid pace in March and early April. Steel producers reported that shipments were up in March, and that they expected shipments to increase in April. Auto producers reported that production was up in March, and that they expected production to increase in April. Producers of nonferrous metals reported that shipments were up in March, and that they expected shipments to increase in April. Producers of fabricated metals reported that shipments were up in March, and that they expected shipments to increase in April. Producers of machinery reported that shipments were up in March, and that they expected shipments to increase in April. Producers of electronics reported that shipments were up in March, and that they expected shipments to increase in April. Producers of chemicals reported that shipments were up in March, and that they expected shipments to increase in April. Producers of rubber and plastics reported that shipments were up in March, and that they expected shipments to increase in April.

Retail

Retail sales were mixed in March and early April. Auto sales were weak. Sales of general merchandise were reported to be flat. Sales of apparel were reported to be flat. Sales of furniture were reported to be flat. Sales of building materials were reported to be flat. Sales of food were reported to be flat. Sales of gasoline were reported to be flat. Sales of other retail items were reported to be flat.

Commercial Activity

Commercial activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Energy

Energy activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Agriculture

Agricultural activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Real Estate

Real estate activity was reported to be slowing in March and early April. Contacts reported that the pace of activity had decreased since the last report. Contacts reported that the pace of activity was expected to decrease in the next six months. Contacts reported that the pace of activity was expected to decrease in the next twelve months.

Labor

Labor markets were reported to be tight in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Wages

Wage pressures were reported to be building in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Prices

Price pressures were reported to be intense in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

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Eighth District--St. Louis

Economic activity in the Eighth District increased at a moderate pace since our last report, as manufacturing, retail, and service sectors all reported increases. Manufacturers and service sector establishments said that shipments and new orders rose broadly in March and early April, and retailers reported that sales were strong over the Easter weekend. Contacts remained optimistic about the near-term outlook, and most expected that sales would continue to grow at a solid pace. Hiring activity continued strong in the manufacturing and service sectors, and retailers reported that they had increased their staffs to meet heightened demand over the Easter weekend. Wage increases were generally reported to be moderate, although some contacts noted that they were having difficulty finding skilled workers and were offering higher wages to attract them. Prices continued to rise at a rapid pace, with many contacts reporting that they had passed on increases in energy and materials costs to their customers. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Service

Reports indicate that service sector activity picked up somewhat since our last report. Revenues were widespread across industries, and most expected increases in revenues and hiring over the next six months. Contacts reported that they had increased wages to attract and retain workers, and they expected wages to rise at a faster pace in the coming months.

Retail

Eighth District retailers continued to report strength, due in March and the first half of April. Contacts reported that sales at Richmond and Easter were higher than last year, and that they expected business to remain strong in the coming months. Retailers reported that they had successfully become higher-priced items and were continuing to raise their prices, and they expected to be able to pass on future increases in their costs to consumers. Retailers reported that they had increased their staffs to meet heightened demand over the Easter weekend, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Manufacturing and Transportation

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Transportation and Tourism

Tourism activity increased modestly in March and early April, according to most reports. Hotels reported that occupancy rates were higher than last year, and that they expected business to remain strong in the coming months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

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Ninth District--Minneapolis

Reports from contacts in the Ninth District's economy were mixed overall in March and early April. Merchants experienced moderately increasing sales, while a flower sales were fully disrupted by heavy rains and flooding. Manufacturers reported increasing sales and new orders, while tourism activity was reported to be slowing. Residential real estate activity was reported to be slowing, while commercial real estate activity was reported to be increasing. Labor markets were reported to be tight, and wage pressures were reported to be building. Price pressures were reported to be intense, but not widespread. Overall, the economy is reported to have grown at a moderate pace since the last report.

Finance

Reports from contacts indicate that lending activity grew more slowly in March and the first half of April. Contacts reported that loan demand was down relative to the same period last year, while others noted that loan demand was down relative to the previous month. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Real Estate

Reports from contacts indicate that housing activity grew more slowly in March and the first half of April. Contacts reported that sales were down relative to the same period last year, and that they expected sales to remain flat over the next six months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

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Transportation and Tourism

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Tenth District--Kansas City

Economic activity in the Tenth District continued to expand, but at a slower pace than in recent months. Manufacturing activity remained strong, but retail sales softened. Auto sales were reported to be weak. Commercial activity was reported to strengthen. Bright spots in the economy were the energy and agricultural sectors. Residential real estate activity was reported to be slowing. Labor markets were reported to be tight, and wage pressures were reported to be building. Price pressures were reported to be intense, but not widespread. Overall, the economy is reported to have grown at a moderate pace since the last report.

Manufacturing

Manufacturing activity remained strong in March and early April, though most reports indicated that the pace of growth slowed somewhat from earlier in the year. Steel producers reported that shipments were down in March, but that they expected shipments to increase in April. Auto producers reported that production was down in March, but that they expected production to increase in April. Producers of nonferrous metals reported that shipments were down in March, but that they expected shipments to increase in April. Producers of fabricated metals reported that shipments were up in March, and that they expected shipments to remain strong in April. Producers of machinery reported that shipments were down in March, but that they expected shipments to increase in April. Producers of electronics reported that shipments were down in March, but that they expected shipments to increase in April. Producers of chemicals reported that shipments were down in March, but that they expected shipments to increase in April. Producers of rubber and plastics reported that shipments were down in March, but that they expected shipments to increase in April.

Retail

Retail sales softened in March and early April. Auto sales were reported to be weak. Sales of general merchandise were reported to be flat. Sales of apparel were reported to be flat. Sales of furniture were reported to be flat. Sales of building materials were reported to be flat. Sales of food were reported to be flat. Sales of gasoline were reported to be flat. Sales of other retail items were reported to be flat.

Commercial Activity

Commercial activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Energy

Energy activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Agriculture

Agricultural activity was reported to be strong in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Real Estate

Real estate activity was reported to be slowing in March and early April. Contacts reported that the pace of activity had decreased since the last report. Contacts reported that the pace of activity was expected to decrease in the next six months. Contacts reported that the pace of activity was expected to decrease in the next twelve months.

Labor

Labor markets were reported to be tight in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Wages

Wage pressures were reported to be building in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

Prices

Price pressures were reported to be intense in March and early April. Contacts reported that the pace of activity had increased since the last report. Contacts reported that the pace of activity was expected to increase in the next six months. Contacts reported that the pace of activity was expected to increase in the next twelve months.

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Eleventh District--Dallas

Economic activity in the Eleventh District increased at a moderate pace since our last report, as manufacturing, retail, and service sectors all reported increases. Manufacturers and service sector establishments said that shipments and new orders rose broadly in March and early April, and retailers reported that sales were strong over the Easter weekend. Contacts remained optimistic about the near-term outlook, and most expected that sales would continue to grow at a solid pace. Hiring activity continued strong in the manufacturing and service sectors, and retailers reported that they had increased their staffs to meet heightened demand over the Easter weekend. Wage increases were generally reported to be moderate, although some contacts noted that they were having difficulty finding skilled workers and were offering higher wages to attract them. Prices continued to rise at a rapid pace, with many contacts reporting that they had passed on increases in energy and materials costs to their customers. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Service

Reports indicate that service sector activity picked up somewhat since our last report. Revenues were widespread across industries, and most expected increases in revenues and hiring over the next six months. Contacts reported that they had increased wages to attract and retain workers, and they expected wages to rise at a faster pace in the coming months.

Retail

Eleventh District retailers continued to report strength, due in March and the first half of April. Contacts reported that sales at Richmond and Easter were higher than last year, and that they expected business to remain strong in the coming months. Retailers reported that they had successfully become higher-priced items and were continuing to raise their prices, and they expected to be able to pass on future increases in their costs to consumers. Retailers reported that they had increased their staffs to meet heightened demand over the Easter weekend, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Manufacturing and Transportation

Manufacturing activity increased somewhat since our last report, as shipments and new orders expanded in March. Revised assessments of an expansion of an aerospace firm and a new automobile assembly plant in the region were the most significant announcements since our last report. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

Transportation and Tourism

Tourism activity increased modestly in March and early April, according to most reports. Hotels reported that occupancy rates were higher than last year, and that they expected business to remain strong in the coming months. Contacts reported that they had increased their staffs to meet heightened demand, and they expected to add more workers in the coming months. Contacts reported that they were having difficulty finding skilled workers, and they were offering higher wages to attract and retain workers.

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Twelfth District--San Francisco

Economic activity in the Twelfth District continued to expand, but at a slower pace than in recent months. Manufacturing activity remained strong, but retail sales softened. Auto sales were reported to be weak. Commercial activity was reported to strengthen. Bright spots in the economy were the energy and agricultural sectors. Residential real estate activity was reported to be slowing. Labor markets were reported to be tight, and wage pressures were reported to be building. Price pressures were reported to be intense, but not widespread. Overall, the economy is reported to have grown at a moderate pace since the last report.

Manufacturing

Manufacturing activity remained strong in March and early April, though most reports indicated that the pace of growth slowed somewhat from earlier in the year. Steel producers reported that

Developers throughout the District again relayed concern over a labor shortage in the construction industry. A significant number of merchants surveyed noted difficulty filling positions. A shortage of qualified truck drivers was also noted by several business contacts.

Energy costs were noted as a constraining factor in most industries, and higher input prices continued to affect manufacturers and builders. The ability to pass on higher costs to customers varied across firms. Contacts noted that more building contractors were adding a margin to their quotes to try and protect themselves against further input price increases. However, those with fixed contracts have been unable to pass along cost increases, and some firms have reportedly delayed projects as a consequence. Oil service companies have been able to increase prices for equipment and services because of strong demand.

Agriculture and Natural Resources
Recent dry weather had a mixed impact on regional crops. Vegetable harvesting was in full swing in south Florida. In Georgia, the lack of rains reportedly slowed some livestock pasture growth. Meanwhile, poultry prices remained depressed because of uncertainties related to the impact of the Avian Flu on export markets. Government reports show moderate declines in the amount of shut-in oil and gas in the Gulf of Mexico. By early April, approximately 23 percent of oil and 14 percent of natural gas remained shut-in. A little over 40 percent of the remaining shut-in oil production is attributable to a single platform that is expected to return to production in the second half of this year.

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Seventh District--Chicago

Economic activity in the Seventh District continued to expand at a moderate pace during March and early April. Spending by both consumers and businesses increased at rates similar to those in the last report. Labor market conditions were little changed, with small employment gains in some industries and only sporadic reports of layoffs. Manufacturing activity remained strong. Residential construction and real estate activity softened, while commercial real estate activity increased at a slow pace. Mortgage demand was down, but the expansion in commercial lending continued. Cost and price pressures remained firm. Rains boosted moisture conditions but slowed preparations for planting in parts of the District.

Consumer spending
Consumer spending continued to increase modestly in March and early April. Retailers in most areas said that sales gains from last year were running at low single-digit growth rates. Electronics and gardening items recorded strong increases. High gasoline prices have reportedly slowed sales at discounters but have had little effect on the demand for expensive durable goods, such as pleasure boats and recreation vehicles. Several contacts expressed concern that higher gas prices during the summer driving season would lead to softer retail sales in coming months. Retail inventories were at desired levels. Auto dealers said that sales of new vehicles remained soft, but used car sales were holding up well. Several dealers said that high gas prices were eroding demand for light trucks, but a few also said that vehicle prices and finance rates were becoming bigger factors in consumers' decision making. Tourism increased modestly in the District, with hotel bookings running ahead of a year ago.

Business spending
Business spending and hiring expanded again. For the most part, District firms were holding to their existing capital spending plans; these generally call for higher outlays this year than last. The largest gains were budgeted for equipment purchases, but a significant number of contacts planned to increase construction spending. A local information technology firm noted an increase in the number of projects started during the first quarter and forward-looking indicators suggested that activity would remain solid this year. Overall labor market conditions were little changed, with small employment gains in some industries and only sporadic reports of layoffs. Demand for information technology workers was increasing. One pharmaceutical firm said its head count was up nationwide, but down at their Midwest locations. Retail hiring was limited to staffing new stores. In contrast, several auto suppliers and mortgage brokers reported reductions in workers. Temporary help firms reported that growth in billable hours had firmed in the District as a whole, as the long-running declines in bookings in Michigan had showed signs of "settling out." Shortages of skilled manufacturing workers persisted in the District. One contact noted that enrollments in an apprenticeship program had increased recently.

Construction/real estate
Construction and real estate activity was mixed by both location and market segment. Residential activity continued to slow from high levels in most areas. Contacts in Illinois, Indiana, and Michigan said that sales had softened, while real estate agents in Wisconsin said that sales in March had recovered some. Most contacts indicated that the supply of new and existing homes for sale was growing, buyer traffic was down, and homes were staying on the market longer. In addition, new home construction slowed in most areas. Apartment vacancy rates were steady. On balance, commercial construction and real estate continued to expand at a slow pace. In southeast Michigan, demand for all types of commercial space was weak. In contrast, contacts in Chicago reported a sharp pickup in net absorption of office space, with a number of large block tenants entering the market. The amount of space under construction ticked up in the first quarter. Commercial vacancy rates were either little changed or down slightly.

Manufacturing
Manufacturing activity remained strong during March and early April. Demand for heavy equipment continued to be solid and order backlogs increased. Orders for mining equipment remained especially strong; current production capacity has been booked through 2007 and some producers have begun taking orders for 2008. One industry analyst noted that equipment makers have been trying to increase capacity by outsourcing more intermediate work and just focusing on assemblies. Orders of agricultural equipment were flat. Activity in the tooling industry remained brisk, led by demand from the energy sector. Steel producers reported strong demand from all markets and growing backlogs. Steel imports were increasing as well. Wallboard production continued to run near full capacity. Heavy- and medium-duty truck orders remained solid, reflecting in part the continued pre-purchase of trucks before new EPA standards go into effect at the beginning of next year. Nationwide, light vehicle sales were flat between March and early April. One automaker said that vehicle inventories were "excessive," and that this would lead to either production cuts or higher incentives.

Banking/finance
Lending activity moderated further. Bankers noted additional declines in mortgage applications for both purchases and refinancing. Still, one contact said that a number of customers were refinancing from adjustable to fixed-rate loans in order to lock in rates before they moved any higher. Demand for home-equity loans declined, which most contacts attributed to slower increases in home values. Mortgage spreads were slim due to competitive pressures. As a result, one banker in Chicago expected to see a number of originators exit the market in the second quarter. Reports on household credit quality were favorable, though exceptions were noted from Michigan. Deposit growth was sluggish, and contacts said that deposit rates were priced aggressively. Commercial lending expanded, continuing the trends seen earlier in the year. Loan volume and use of existing credit lines picked up, and demand was solid across product markets. One contact noted that their optimism about loan demand had improved markedly since the last reporting period. Commercial credit quality remained in good shape.

Prices/costs
Price and cost pressures remained firm in March and early April. Many contacts noted that higher energy prices were boosting costs, and only heavy truck manufacturers and toolmakers indicated that they had been successful in passing these costs through to their customers. Steel prices increased noticeably since the last reporting period. A construction industry analyst noted that roadbuilding material costs have moved significantly higher, leading some state governments to reevaluate their projects. Price reports at the retail level were mixed. One retail chain said it was increasing prices of its private label goods, but an industry analyst said that competitive pressures were keeping most retailers reluctant to increase prices. Hotel room rates were flat to slightly higher, while new vehicle prices were flat to slightly lower. Labor costs increased at a steady rate in most industries.

Agriculture
Agricultural conditions improved in March and early April. Recent rains reduced the area of the District affected by drought, although the rains also slowed planting preparations in parts of the region. Still, contacts said that more and timely rains will be critical for the growing season. Contacts continued to believe that soybean acres would increase relative to corn this year. However, the gains likely will be not as big as previously reported due to recent changes in the relative crop prices and fertilizer costs. Also, increases in ethanol production were expected to boost the demand for corn further. Cash flows were tight during the reporting period for crop farmers, dairy operators and cattle feeders. In contrast, hog producers managed better than expected, and some expansions are under consideration in Indiana. There were mixed reports on farmland values.

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Eighth District--St. Louis

Eighth District economic activity expanded modestly since the previous survey. During March, the service sector continued to grow, and manufacturing showed signs of continued improvement. Many contacts in retail trade reported gains relative to last year, although reports from auto dealers indicated decreases in sales relative to this time in 2005. Commercial construction activity continued to increase, while home sales and single-family residential permits in January and February varied across the District. Total lending activity among small and mid-sized banks remained steady.

Manufacturing and Other Business Activity
Manufacturing in the District continued to show signs of moderate expansion. Based on reports received during March, several manufacturers are expanding or opening plants, whereas fewer reported plant closings and workforce reductions. Firms in the plastics, auto parts, and wood products industries announced plans to open new facilities in the District. Contacts in the auto parts, food, transportation equipment, machinery, electronic products, fabricated metal products, and motor vehicles industries reported plans to expand existing facilities and hire additional workers within the next 12 months. Several contacts in the apparel industry, however, reported plans to close plants and lay off workers. In general, most contacts characterized economic activity and the outlook for the future as either "growing" or "stable."

The District's service sector continued to expand in most areas. Contacts in the business support, warehousing, and health services industries reported plans to expand their workforces. Contacts in the freight transportation industry reported strong demand for their services. Most District retailers reported increases in sales of 5 to 10 percent over March 2005 levels. Clothing, building materials, and "big box" retailers reported especially strong growth. Auto sales during March, in contrast, remained below 2005 levels in most areas of the District. Domestic and sport utility vehicles, as well as trucks, experienced the largest decreases in sales. Several auto dealers also reported that sales of luxury models were "soft." Imports and used vehicles fared better, with sales of these described as "relatively brisk" in some areas of the District.

Real Estate and Construction
Home sales were mixed throughout the District. February year-to-date sales were up 21 percent in Memphis and over 6 percent in St. Louis compared with the same period in 2005. In Little Rock, February year-to-date home sales were down 6 percent, and in Louisville home sales remained virtually unchanged from the same period last year. Residential construction continued to be slow in much of the District. February year-to-date single-family residential permits declined 44 percent in Louisville, 6 percent in St. Louis, and 4 percent in Memphis. In contrast, permits were up 16 percent in Little Rock.

Commercial real estate markets in the District continued to grow. Contacts in southern Indiana reported that commercial construction was active, and contacts in northeast Arkansas reported that a number of projects were being planned. Reports indicated strong commercial construction activity in Little Rock, and contacts in St. Louis reported that, in terms of square footage, commercial construction for 2006 would surpass commercial construction projects completed in 2005. Contacts in west Tennessee reported positive expectations for commercial and industrial construction for 2006, and contacts in northeast Mississippi reported that a large industrial project was recently announced for that area.

Banking and Finance
Total loans outstanding at a sample of small and mid-sized District banks showed essentially no change from early January to late March. Real estate lending, which makes up 72.4 percent of total loans, increased 1.3 percent. Commercial and industrial loans, accounting for 17.2 percent of total loans, decreased 1.2 percent. Loans to individuals, roughly 4.7 percent of total loans, fell 2.3 percent. All other loans, approximately 5.7 percent of total loans, decreased 9.5 percent. Over this period, total deposits at these banks decreased 0.7 percent.

Agriculture and Natural Resources
Farmers in the District reported that they expected to plant 8 percent fewer acres of corn, 4 percent fewer acres of sorghum, 14 percent fewer acres of rice, and 15 percent fewer acres of tobacco this year than in 2005. They also anticipated planting 7 percent more acres of soybeans and 4 percent more acres of cotton than last year. Some farmers reported switching from corn to soybeans because the latter were cheaper to grow in terms of nitrogen fertilizer and fuel, which have increased in cost. This year's total winter wheat acreage increased by more than 40 percent from last year, and at least 68 percent of each District state's crop was reported to be in good or excellent condition. At least two-thirds of the pastures in each state were reported to be in fair or good condition.

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Ninth District--Minneapolis

The Ninth District economy grew at a solid pace since the last report. Increases in activity were noted in consumer spending, manufacturing, tourism, mining, agriculture, construction, and commercial real estate. Meanwhile, residential real estate softened. Overall employment levels and wages increased modestly. Significant price increases were noted in gasoline and some construction materials.

Consumer Spending and Tourism
Overall consumer spending increased moderately since the last report. Retail sales were up slightly in March compared with last year's earlier Easter season. A major Minneapolis-based retailer reported same-store sales up 2 percent in March compared with a year ago. A Minneapolis mall manager noted that March traffic was about even with a year ago, with sales up about 2 percent; sales and traffic were brisk on the Friday and Saturday of Easter weekend. Recent sales and traffic at another Minneapolis area mall increased about 2 percent from a year earlier. A mall manager in Montana noted that March apparel and food sales increased from a year ago; overall sales in February increased 10 percent.

Recent vehicle sales were generally lower than a year ago in Montana, according to a representative of an auto dealers association. After slow vehicle sales in South Dakota during January and February, sales in March and early April showed some signs of improvement, according to a representative of an auto dealers association.

The winter tourism season finished solid in several parts of the district. Downhill ski resorts in Montana reported deep snow pack and late season lift ticket sales above a year ago. Tourism destinations in eastern Montana also reported that visits were up compared with last year. A chamber of commerce representative in northwestern Wisconsin noted that the winter tourism season finished stronger than last year. Recent hotel room occupancy rates in Minneapolis have trended upward as corporate convention business has shown signs of strengthening.

Construction and Real Estate
Overall construction activity grew modestly. Commercial construction contacts surveyed in the district reported year-to-date activity to be higher or about the same compared to last year. Commercial real estate developers in the Upper Peninsula of Michigan expect a stronger construction season this year than in recent years. Commercial building permits were up significantly in number and value over last year in Fargo, N.D., and Rochester, Minn. "We had a good year in 2005; 2006 looks even stronger," said a Minnesota concrete contractor. Year-to-date commercial building activity is up over last year in Minneapolis-St. Paul; however, March home-building permits were down 10 percent in value from a year earlier. March new home permits in Rochester, Minn. were down significantly in value from a year earlier. While year-to-date residential permits were down slightly in Sioux Falls, S.D., developers there announced plans for a 300-acre residential and retail project on the city's east side.

Commercial real estate was strong. The Minneapolis-St. Paul office market continued to grow, with a market research firm predicting growth in absorption through 2007 with little increase in supply. Meanwhile, the industrial market there is heating up, with increased absorption. In contrast, residential real estate softened. Realtors in Fargo, N.D., reported March closed sales down 2 percent last year and an increase in listings. New listings in the Minneapolis area were up 47 percent over last year, but buying activity was level and time on the market trended upward.

Manufacturing
Manufacturing activity expanded. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated fast growth of manufacturing activity in the Dakotas and Minnesota. In Minnesota, a company plans to double the size of a construction equipment component plant, a radiator company plans to build another factory, and a printing company is building a new facility. A control panel manufacturer in the Upper Peninsula is adding manufacturing and warehouse space.

Energy and Mining
Activity increased in the mining sector and was stable at a high level in the energy sector. Nearly all open mines in the district were producing at near full capacity. A mine in Montana is planning to expand capacity. In addition, several companies are exploring or developing mineral properties in Montana and Minnesota. Oil and gas exploration and production were about level from late February through late March.

Agriculture
Activity in the agricultural sector increased. Spring rains across the district bode well for the upcoming growing season. Half the winter wheat crop in Montana is rated good or excellent, and the calving season is progressing ahead of last year and the five-year average. Meanwhile, prices remained relatively solid throughout March for the main agricultural products produced in the district.

Employment, wages and prices
Overall employment levels increased modestly since the last report. According to a survey of Minneapolis-St. Paul companies by a temporary staffing agency, 29 percent of respondents expect to increase staffing levels during the second quarter, while 9 percent expect decreases. Montana bank directors reported tight labor market conditions in many areas. March initial claims for unemployment insurance were flat from a year ago in Minnesota.

Some companies announced upcoming staff reductions. A slowdown at a motor vehicle plant in St. Paul could result in at least 150 layoffs during the summer. Also in Minnesota, a consumer electronics retailer recently announced the elimination of 300 positions at its corporate headquarters and an investment bank recently announced plans to reduce staff by 350 positions following a purchase of the company.

Overall wage increases were moderate. Aside from notable increases in certain trades, overall wage increases were modest, said a Montana bank director. According to results of a recent St. Cloud (Minn.) Area Business Outlook Survey, 50 percent of respondents expect to increase employee compensation over the next six months. In the same survey a year ago, 54 percent of respondents anticipated increases.

Significant price increases were noted in gasoline and some construction materials. Minnesota gasoline prices in the middle of April were up about 45 cents per gallon from February and almost 50 cents per gallon from a year ago. Price increases for construction materials include lumber, concrete, aluminum, and some steel products. Copper prices in April were more than 50 percent higher than levels in 2005.

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Tenth District--Kansas City

The Tenth District economy grew solidly in late March and early April. Growth in manufacturing activity increased, consumer spending expanded, and labor markets firmed. Energy activity continued to rise, while drought conditions eased but remained a concern in the agricultural sector. Commercial real estate activity held steady, and residential construction declined somewhat. Wage pressures and wholesale price pressures rose slightly, while retail price pressures edged down.

Consumer Spending
Consumer spending expanded solidly in the period from late March to early April. Most retail contacts reported that sales were higher than in the prior survey period and above year-ago levels. However, several mall managers noted a decline in traffic in recent weeks. For the most part, store managers were satisfied with inventory levels and continue to be optimistic about future sales. Auto dealers reported that sales in late March and early April were up slightly from the previous survey period but generally lower than a year ago. Fuel-efficient cars were reported to be selling well, while pickup trucks and large SUVs and pickup trucks were characterized as weak. Inventory levels were said to be satisfactory at most dealerships, and dealers generally expect sales to hold steady in the coming months. Travel and tourism contacts reported solid growth in activity since the previous survey. Passenger counts were higher than a year ago at most airports across the district, and several airports reported record traffic. Hotel occupancy rates also remained higher than a year ago in most areas. Contacts generally expect that tourism activity will stay strong in the months ahead.

Manufacturing
Manufacturing activity in the district continued to expand in late March and early April. Many plant managers reported increases in production and new orders, and growth in capital spending increased after slowing somewhat in the previous survey period. A substantial fraction of respondents expect further increases in production going forward. Contacts reported that some materials, including steel and aluminum, had become more difficult to obtain than in previous survey periods. Most contacts expect these difficulties will not be resolved in the near future.

Real Estate and Construction
Residential construction declined slightly in late March and early April, and commercial real estate activity held steady. Most home builders reported that starts decreased somewhat since the previous survey. Many builders expect further declines in the months ahead, although new home construction is expected to remain strong in a few areas. Construction materials were generally reported to be readily available, and no significant problems obtaining materials are anticipated in the coming months. Residential real estate agents said that home sales were up slightly since the previous survey, and they expect sales to generally remain unchanged in the coming months. Inventories of unsold homes continued to rise in many markets and, for the most part, were well above year-ago levels. Home price appreciation remained modest in most areas, and real estate agents expect moderate growth in home prices going forward. Mortgage lenders reported a slight increase in home purchase loans since the previous survey and said demand was similar to a year ago. Demand for refinancings was unchanged from the previous survey period and below year-ago levels. Commercial real estate activity in the district held steady in late March and early April. In most markets, vacancy rates and rents for commercial space were little changed from the previous survey period, although conditions remained stronger than a year ago. Commercial real estate markets are expected to improve slightly in the months ahead, and most contacts expect commercial construction to be at least as strong in 2006 as 2005.

Banking
Bankers reported that deposits increased and loans held steady since the last survey, causing a decline in loan-deposit ratios. Demand rose slightly for commercial and industrial loans, while demand for consumer loans, home equity loans, and commercial real estate loans fell somewhat. On the deposit side, all types of accounts increased. All respondents raised their prime lending rates and consumer lending rates since the last survey. Lending standards were unchanged.

Energy
Energy activity continued to expand in the district during late March and early April. The count of active oil and gas drilling rigs in the region increased modestly since the prior survey period and remained well above year-ago levels. Many contacts continued to report that shortages of equipment and workers were constraining drilling activity. Pipeline capacity was also reported to be limited in certain areas of the district. Nevertheless, firms throughout the district expect further increases in drilling in the months ahead.

Agriculture
Dry weather remained a concern in parts of the district despite scattered precipitation. In southern portions of the district, moisture received over the last month was lost to unusually warm and windy weather. District winter wheat conditions were poor, especially in Oklahoma. Planting of spring crops was reported to be running somewhat behind a year ago but in line with five-year averages. Pasture conditions remained poor in many areas despite the recent precipitation. As a result, some ranchers were forced to place calves in feedlots earlier than normal, putting downward pressure on fed cattle prices.

Labor Markets and Wages
Labor markets firmed in late March and early April, while wage pressures edged up. Hiring announcements outpaced layoff announcements by a sizeable margin. Several aerospace firms announced that they were expanding in the district, and a number of high-tech manufacturers also said they plan to add workers. A slightly larger percentage of contacts reported labor shortages than in the previous survey. Among the workers reported to be in short supply were auditors, auto technicians, skilled and unskilled manufacturing workers, oil and gas workers, and truck drivers. The fraction of firms reporting above-normal wage increases rose from the previous survey, although the share remained well below the levels seen throughout the late 1990s.

Prices
Wholesale price pressures increased slightly in late March and early April, but retail price pressures edged down. The percentage of manufacturers reporting increases in materials prices and the percentage reporting increases in finished goods prices were both little changed from the previous survey period. However, the share of plant managers expecting materials prices to rise in coming months and the share expecting finished goods prices to rise both edged up. Builders indicated that raw materials costs were mostly stable, and they did not expect any large increase in materials prices in the months ahead. The share of retailers reporting higher prices than a year ago was lower than in the previous survey, and the percentage of retail stores that plan price increases in the future also declined.

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Eleventh District--Dallas

Eleventh District economic activity continued to strengthen in March and the first half of April. The energy industry remains very strong, while activity continued to pick up in the manufacturing and service sectors. Construction and real estate activity accelerated, boosted by vigorous homebuilding and mounting commercial construction. Contacts in the financial services sector report little change overall. Agricultural conditions are poor.

Prices
Price pressures are expanding, fueled by rising costs. Prices are up for utilities, gasoline and transportation. More contacts appear to be resigned that oil prices will be high for several months. While some industries still report that stiff competition is holding down selling price increases, there are increasingly reports of price increases from firms that had previously considered them impossible, both in the manufacturing and service sectors.

Crude oil prices increased from near $60 per barrel in early March to over $70 in mid-April. Heavy maintenance at refineries reduced demand for crude putting downward pressure on prices, but this was offset by international tensions in oil-exporting countries like Nigeria and Iran. Oil inventories have built to very high levels, well above any recent history, presumably as a precaution.

Gasoline prices increased 25 cents per gallon at the pump during the period, pushed up by strong demand, rising crude prices and shortages of ethanol, an additive that is being used in the transition to low-sulfur, non-MTBE gasoline. Diesel prices increased 10 cents at the pump. Natural gas prices remained near $7 per thousand cubic feet, held down by heavy inventories, which are now more than 60 percent above normal and well above the 5-year maximum.

Labor Market
The labor market continues to tighten. Reports of hiring have increased from both manufacturing and service firms. Contacts still note shortages of skilled workers, and there are more reports of a tightening of the market for unskilled workers. In some areas of the District, there are reports of difficultly finding workers who meet basic qualifications of employment, such as background checks and drug tests. The labor market is particularly tight in the portions of the District that had received an influx of residents who relocated following the hurricanes.

Wage pressures are building for some industries, stiff competition is limiting profitability and the ability of firms to raise salaries. However, an increasing number of industries report that they must and are increasing salaries to obtain and retain workers.

Manufacturing
Overall manufacturing activity was strong and picked up slightly. Activity is strongest among producers supplying the energy and construction sectors. A number of manufacturers reported raising selling prices, including those in the apparel industry.

Demand remained strong for construction-related products, such as lumber, fabricated metals, stone, clay and glass; and capacity constraints were limiting some production. Apparel producers report an increase in demand, and sales of food products is up slightly. High-tech manufacturers reported good, steady growth in sales and orders. Respondents say most of the output gains are coming from continued strong productivity growth rather than hiring. Inventories are at desired levels. Prices are not declining as fast as normal, they say, and profits are increasing.

Petrochemical production is weaker than a year ago. Prices fell for most petrochemical products, but some prices still remain above where they were prior to the hurricanes. Stronger prices in the United States than in other parts of the world are attracting petrochemical imports. With increased imports and relatively low prices abroad, domestic producers of petrochemicals are finding smaller markets for their products. The industry continues to recover from the hurricanes, with some plants just now coming back on line. Some producers are going through an extensive maintenance that was postponed by the hurricanes, and this is affecting the ethylene market, in particular.

Refiners also had a long maintenance season, and refinery utilization rates have been low. Inventories of raw gasoline are at 5-year highs, but refiners lack sufficient quantities of the additive ethanol that is now required in most gasoline sold in the United States from late spring to early fall. Refined product imports have settled back to historical ranges, after soaring to as high as 5 million barrels per day after the hurricanes.

Services
Demand for business services remains strong, and several firms report increased activity compared with last year. Temporary service firms report good demand, particularly for high tech and light industrial manufacturing workers. Legal firms report steady demand overall. Real estate, transactional and corporate work remains robust, but litigation activity is down. Accounting firms say activity is still strong especially for audit services; however, demand for Sarbanes-Oxley related work has slowed.

Demand for transportation services remains strong and up significantly compared with last year. Railroads are planning to build additional rail lines to increase capacity. Trucking firms continue to report difficulty finding qualified drivers. Demand for air travel is strong, and contacts say forward bookings look good. Airlines report that reduced domestic capacity has increased load factors and that, along with rising fares, is helping them keep up with soaring fuel costs.

Retail Sales
Retailers report good sales growth, but year over year comparisons have been complicated by Easter's shift from March in 2005 to April in 2006. Sales are weakest to low-income consumers for who, contacts suggest, are paying a larger share of disposable spending to high utilities and gasoline costs. One large retailer noted a recent deterioration in credit portfolios and spike in delinquencies, suggesting that some customers are unable to pay all of their bills. Contacts say that competition in the industry remains stiff, but there is "some pricing authority," which has permitted price increases or fewer discounts. Product costs are also rising.

Auto dealers report flat demand and very slow sales for cars and trucks made by American-owned companies. Inventories are very heavy for some vehicles, pressuring dealers to lower prices and bring back rebates for those models.

Construction and Real Estate
Residential markets remained strong. Homebuilders reported record setting sales for the first three months of 2006. Demand for existing homes was also strong. Single-family home markets are extremely competitive, however, and builders say they are reluctant to increase prices, even as construction costs have risen. Contacts remain concerned about news reports of slowing home markets nationwide but seem more confident than at the time of the last Beige Book that local markets will be unaffected. Builders in Dallas/Fort Worth are keeping their eyes on higher inventories. Contacts are seeing some increased investor activity, but say the price gains appear driven by economic fundamentals.

Apartment leasing continues to increase, and contacts say demand is stronger than usual for this time of year. Inventories remain at good levels with only moderate construction planned for this year. An exception is San Antonio, where contacts are concerned that there may be too much building. Apartment rents are up in Houston, but rents are not firming as much as expected in Dallas/Fort Worth and Austin.

Commercial construction activity is strengthening. Demand for retail space is strong in all the major metropolitan areas. Office and industrial occupancy continues to rise, which is spurring construction activity. Houston will see a good bit of construction this year, with several new industrial development projects underway near the Port of Houston and strong demand for professional and medical office space. Dallas office demand has picked up, say contacts, with some suburban sectors nearing full occupancy, according to contacts. However, downtown Dallas continues to have ample vacant space. Contacts expect commercial construction to be especially strong in Austin.

Financial Services
Financial services respondents continue to report fierce competition for loans. While there have been some increase in home mortgage delinquencies, contacts say overall loan quality is very good. Short-term interest rate increases have not adversely affected clients nor slowed loan demand. Respondents would prefer stronger growth in deposits, which has been flat.

Energy
The oil services industry reported that demand is still very strong, and capacity is tight, with growing backlogs, and an increasing rejection of work that cannot be scheduled. The rig count continues to rise over the past six weeks, with the number of working oil and natural gas rigs up by over 50 in Texas and by over 80 in the United States. The growing rig count owes to new rigs entering the market and some refurbished and rebuilt rigs. Also, the Gulf of Mexico returned to over 90 working rigs--near the levels before the hurricanes. Rigs continue to leave the Gulf, however, and the day-rates in the Gulf have picked up very sharply since the hurricanes.

Agriculture
Wildfires and continued dry weather have led to a deterioration in agricultural conditions. About 10,000 head of cattle and over 800,000 acres of land were lost to wildfires in March. Ranchers are heavily culling their herds in the driest regions of the District, and supplemental feeding remained necessary. Contacts say wheat and oat crops are in poor condition, and more than half of the planted wheat crop is expected to be lost.

Recent rains have improved planting conditions and spurred land preparation for spring planting in East and Central Texas, but overall moisture levels were still below average. Crop insurance may be the only way that some producers can cover their costs, according to contacts, who say that dry conditions and high energy costs are making the production outlook uncertain. Even with insurance program payments, agricultural lenders expressed concerns that statewide credit quality conditions may deteriorate in the second half of the year.

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Twelfth District--San Francisco

The Twelfth District economy expanded at a solid pace during the survey period of March through mid-April. Contacts reported modest wage and price inflation on net, although wage growth remained rapid for selected worker groups with specialized skills in some industries. Retail sales rose, owing in part to a rebound in auto sales, and demand for services was strong. Output and sales grew significantly in most manufacturing sectors and for producers of agricultural and resource-related products. Residential construction, sales activity, and price appreciation slowed slightly in most areas, while the demand for commercial real estate grew further. District banks reported strong loan demand on net and very good credit quality.

Wages and Prices
Contacts reported that upward price pressures were modest overall. Prices for energy-intensive products and selected building materials were at high levels but generally held steady or fell somewhat relative to recent survey periods. Final prices for most goods and services reportedly rose at a modest pace, or in the case of information technology products and services continued to decline, owing to domestic and international competition and ongoing productivity gains.

Overall wage increases remained moderate on net, with reports indicating that wages for broad worker groups in the range of 3 to 4 percent on an annual basis. However, availability remained tight and wage increases remained relatively rapid for some groups of workers with specialized skills, notably in the financial, construction, health-care services, information technology, and professional services sectors. Contacts also noted that employers' costs for employee benefits, particularly for health insurance, continued to rise more rapidly than wages.

Retail Trade and Services
District retail sales grew at a solid pace in most areas during the survey period. "Big-box" retailers of home improvement products and services reported robust orders and sales, while sales of toys and other small retail items grew at a more modest pace. Demand for new and used automobiles bounced back and was stronger than expected during the survey period, with improved sales of domestic makes and continued strength in sales of imported vehicles.

Activity in the services sector generally was vibrant, with some exceptions. Demand remained strong in the health-care services, professional services, and transportation sectors, while conditions were mixed for providers of information technology and media services. District travel and tourist activity expanded further from very high levels, although contacts in Hawaii and California noted that hotel occupancies have been leveling off. Contacts also noted general growth in demand for air travel and improved financial performance by major carriers.

Manufacturing
District manufacturers reported significant growth in output and sales during the survey period of March through mid-April. Orders and sales of semiconductors were strong and industry-wide capacity utilization remained very high; inventories increased slightly but remained near target levels. Production of commercial aircraft continued at a rapid pace in the Pacific Northwest, and orders for new aircraft remained strong. Machine tool makers saw further increases in demand and reportedly have been operating at close to full capacity. Food processors also saw demand growth. In contrast, sales were slightly disappointing for District apparel manufacturers, and excess capacity remains in that sector. More generally, contacts noted that capacity utilization has been rising in most manufacturing sectors, but worldwide competitive pressures have been restraining pricing power.

Agriculture and Resource-related Industries
Demand grew significantly for District agricultural and resource-related products. Sales were robust for most crops and livestock; demand for beef cattle softened slightly but prices received by ranchers remained at very high levels. Contacts noted some supply constraints, including continued high prices for fuel and fertilizer, tight markets for agricultural labor, and unusually wet weather that delayed planting and field work in parts of California. In the resource sector, producers of oil and natural gas continued to see robust demand and little or no excess capacity.

Real Estate and Construction
Activity in residential real estate markets was at high levels but showed signs of further moderation in most areas, while demand for commercial real estate continued to expand. Home sales and construction activity were at high levels overall. However, these and other measures of market conditions, such as the pace of price appreciation and time on the market, suggested significant cooling in most areas. The main exceptions were Utah and parts of the Pacific Northwest, where activity remained robust. On the commercial side, office and retail vacancy rates fell and rental rates rose further in most major markets. Overall construction activity remained at high levels, reflecting an extensive array of residential, commercial, and large public projects in most areas. Several contacts reported that builders continued to face cost increases and minor project delays as a result of tight availability of skilled workers and selected materials such as steel, cement, and lumber.

Financial Institutions
District banking contacts reported strong loan demand on net. The volume of commercial and industrial lending rose, while mortgage lending, particularly in subprime categories, fell somewhat from very high levels. One contact noted that compression of profit margins resulting from intense competition and narrow interest spreads has been offset in part by "excellent" asset quality. Venture capital financing has risen in some areas, and one Silicon Valley institution with venture capital interests noted plans to expand employment significantly this year.

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