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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

July 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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Summary*

Economic activity has continued to increase, on balance, since the previous survey, although the Cleveland and Kansas City Districts reported that the level of economic activity generally held steady. Among those Districts reporting improvements in economic activity, a number of them noted that the increases were modest, and two Districts, Atlanta and Chicago, said that the pace of economic activity had slowed recently.

Manufacturing activity continued to expand in most Districts, although several Districts reported that activity had slowed or leveled off during the reporting period. Districts also noted improved conditions in the services sector. The five Districts reporting on transportation noted increased activity. Tourism activity also increased across the Districts, although the Atlanta District noted concerns about decreased leisure travel to the Gulf Coast. Retail sales reports generally indicated a continued rise in spending, and several Districts noted that necessities continued to be strong sellers, while big-ticket items moved more slowly. However, most Districts that reported on auto sales noted declines in recent weeks. Activity in residential real estate markets was sluggish in most Districts after the expiration of the April 30 deadline for the homebuyer tax credit. Commercial real estate markets, especially construction, remained weak. Banking conditions varied across the Districts, with some Districts noting soft or decreased overall loan demand; credit standards remained tight in most reporting Districts. Recent rains had mixed effects on crop conditions, while activity in the natural resources sector increased. Overall labor market conditions improved modestly across the Districts, with several reports of temporary hiring. Consumer prices of goods and services held steady in most reporting Districts.

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* Prepared at the Federal Reserve Bank of St. Louis and based on information collected on or before July 19, 2010. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Input prices also held largely steady, with only a few reports of cost increases. Wage pressures continued to be contained on the whole.

Manufacturing and Other Business Activity

Manufacturing activity in most Districts continued to move up since the last report, although the pace of activity slowed or activity leveled off in the New York, Cleveland, Kansas City, Chicago, Atlanta, and Richmond Districts. Automobile manufacturing was a bright spot for the Cleveland, Chicago, and St. Louis Districts. Automobile parts suppliers also experienced increased demand in both the Richmond and Chicago Districts. Fuel demand at refineries in the San Francisco District improved, while gasoline demand was steady in the Dallas District. Firms in the semiconductor manufacturing industry reported relatively strong sales or demand growth in both the Boston and San Francisco Districts. Firms in aircraft and parts manufacturing saw sales pick up in both the San Francisco and Dallas Districts. Manufacturing firms in the Boston, Philadelphia, Kansas City, and Dallas Districts were optimistic that demand would continue to improve in the following months. However, Cleveland's contacts expect demand growth to taper off, Philadelphia noted that the balance of positive over negative views had narrowed, and Atlanta reported fewer firms planning expansions in production. Richmond, Chicago, and Dallas reported that firms in construction-related manufacturing experienced weak demand; construction supplies sales were flat in Kansas City, and Minneapolis reported that a firm in the sector was increasing production. Steel production declined in both the Chicago and Cleveland Districts. Some manufacturers in the Atlanta and San Francisco Districts reported high excess production capacity. Capacity utilization was below pre-recession levels in Cleveland and edged lower among steel producers in Chicago.

Activity in the services sector improved across most Districts since the previous report. The freight transportation industry experienced gains in the Cleveland, Atlanta, Kansas City, Dallas, and Philadelphia Districts. Boston, Minneapolis, and Dallas reported a pickup in demand for some consulting firms. Tourism activity increased in the San Francisco, New York, Minneapolis, Richmond, Kansas City, and Atlanta Districts. Atlanta reported that leisure travel decreased in the Gulf Coast, but some of the lost tourist traffic was offset by the presence of cleanup crews, oil company workers, and the National Guard. Information technology firms saw increased business in the Philadelphia, Chicago, and St. Louis Districts, while activity was flat in the Minneapolis District. Demand for healthcare services was flat in both the San Francisco and Richmond Districts, while activity increased in the Boston District.

Consumer Spending

Reports on retail sales during the early summer months were generally positive, although in most Districts the increases were modest. Retail sales in the New York, Philadelphia, Minneapolis, and Kansas City Districts were higher than year-earlier sales, and Dallas reported solid gains. But sales in the Boston District were mixed compared with the previous year. Recent sales increased slightly in the Cleveland, Atlanta, Chicago, and San Francisco Districts; sales in the Richmond District weakened; and sales in the Kansas City District were flat compared with the previous report. Several Districts cited apparel, food, and other necessities as recent strong sellers, while big-ticket items were weak sellers. Contacts reported satisfactory inventory levels in the New York District, mixed inventory levels in the Boston District, and low or declining inventory levels in the Richmond, Atlanta, and Chicago Districts. The outlook for sales was mixed: Retailers in the Philadelphia, Cleveland, Kansas City, and Dallas Districts reported that they expect modest positive sales growth in the upcoming months; contacts in the

Cleveland, Atlanta, and Chicago Districts reported a less optimistic outlook going forward than in the previous report; and retailers in the Boston District reported a cautious outlook.

The Districts that reported on auto sales during the early summer months generally noted a decrease in recent sales. Since the previous report, auto sales in the New York, Philadelphia, Cleveland, Richmond, Chicago, and San Francisco Districts declined, while auto sales in the Kansas City District increased and were unchanged in the Dallas District. Compared with last year, auto sales in the Atlanta and St. Louis Districts were higher. New York, Philadelphia, Cleveland, Chicago, Kansas City, and Dallas all reported that inventory levels were low or declining. Auto dealers anticipate little change in sales for the rest of 2010 in the Philadelphia District and expect sales to increase slowly in the Dallas District. Contacts in the Kansas City District expect continued strong demand, while those in the Cleveland District do not anticipate strong growth in the coming months.

Real Estate and Construction

Nearly all Districts reported sluggish housing markets in the months since the homebuyer tax credit expired on April 30. While some Districts, such as Boston and St. Louis, reported an increase in May and June home sales on a year-over-year basis, some contacts noted that these sales may reflect closings of homes under contract by the April tax credit deadline. The Boston, Philadelphia, Atlanta, and Kansas City Districts reported that home sales are expected to weaken going forward. Residential construction remained limited in several Districts. In the Atlanta District, residential construction activity softened from already weak levels. Homebuilders in the Cleveland District do not expect a turnaround in new home construction any time this year. Builders in the Chicago District are not introducing new inventory without a signed contract on a home. Housing starts were expected to decline for the second half of the year in the Dallas District and to increase slightly over the next three months in the Kansas City District.

Commercial and industrial real estate markets continued to struggle in all twelve Districts. Overall, vacancy rates were flat to slightly increased and continued to exert downward pressure on rents. Construction activity remained weak in most Districts. The New York District noted that commercial development remained generally sluggish despite some pickup in office and retail leasing in New York City. Atlanta, Minneapolis, and Dallas reported that construction activity continued to be weak or to decline, and Cleveland reported that the increase in construction from previous reports has begun to diminish. Philadelphia reported that projects funded with federal stimulus support were near completion with no prospects for additional major construction, while Chicago reported that public infrastructure construction picked up. Developers reported difficult credit conditions in the Cleveland, Richmond, St. Louis, and Kansas City Districts, while the Dallas District reported a few developers going out of business. The outlook for commercial and industrial real estate across the Districts ranged from further declines in activity to slow growth.

Banking and Finance

Reports on banking conditions were largely mixed across the Districts. Banking activity in Richmond and loan demand in Kansas City increased modestly. Overall loan demand was reported as soft or weak in Cleveland, Atlanta, and Dallas, while total outstanding loan volume decreased in recent months in St. Louis but was steady in Philadelphia and San Francisco. Demand for commercial loans was flat to increasing in the Philadelphia, Cleveland, Richmond, Chicago, and Kansas City Districts; in contrast, St. Louis reported a decrease in commercial loans outstanding, while New York, Atlanta, and San Francisco reported restrained or decreasing demand in this lending category. Demand for consumer loans was weak in Cleveland and eased in Philadelphia; Atlanta and St. Louis indicated a decline in consumer lending; but demand for consumer loans increased in New York and Kansas City. Demand for residential mortgage loans eased in the Philadelphia District but increased in the New York District; Cleveland reported residential mortgage activity below expectations at given rates; and real estate lending decreased in St. Louis. Credit was limited for commercial real estate loans in Chicago, and demand fell for these loans in New York and Kansas City.

Most Districts reporting on credit standards continued to note that lending standards remain restrictive. New York reported tighter credit standards for all categories except consumer loans, while Kansas City reported tighter commercial lending standards. Reports on credit quality were mixed in Cleveland and Kansas City, while quality was stable in San Francisco. Credit quality improved slightly in Philadelphia, Richmond, and Chicago. In the Dallas District, nonperforming loans have stabilized and are not expected to worsen. Meanwhile, Philadelphia, Cleveland, and Richmond continued to report delinquencies above historic norms. Delinquency rates in the New York District decreased for consumer loans but experienced little or no change in other categories.

Agriculture and Natural Resources

Recent rains improved the dry conditions in the Minneapolis and Dallas Districts and reduced irrigation needs in the Kansas City District. In contrast, excess precipitation caused some crop damage in the Chicago District and some delays in the winter wheat harvest in the Kansas City District. Parts of the Atlanta District experienced some crop stress due to dryness and heat. Contacts reported that crops were in good condition overall in the Atlanta, Minneapolis, Kansas City, and Dallas Districts, but crop conditions worsened slightly in recent weeks in the Chicago District and were mixed in the St. Louis District compared with last year. Producers in the Chicago District continued to expect good yields for their corn and soybean crops, and the outlook for cotton yields in the Dallas District has improved.

Overall, activity in the energy sector increased since the previous report. Oil production in the Atlanta District and oil and natural gas production in the Cleveland District were relatively unchanged, but other activity picked up throughout the Districts during the reporting period. The number of drilling rigs increased in the Dallas District, and production continued to expand in the Kansas City District. Additionally, oil exploration in the Minneapolis District and oil extraction in the San Francisco District increased. Activity in the Minneapolis District's mining sector increased in recent weeks, as did production and demand for coal in the Cleveland District. Kansas City reported that contacts expect to see continued growth in energy production.

Labor Markets, Wages, and Prices

Labor market conditions improved gradually in several Districts. New York, Chicago, Minneapolis, Richmond, and Atlanta all reported that labor markets improved, albeit modestly in some cases, while Boston and Dallas reported that employment was steady. Philadelphia, Atlanta, Richmond, Chicago, and Minneapolis reported that temporary employment experienced increased demand. Contacts in the Philadelphia, Atlanta, Dallas, and San Francisco Districts said that they continued to rely on temporary staff over permanent hires. Cleveland, Richmond, and Chicago saw hiring in the manufacturing sector. Cleveland also reported some new job openings in the healthcare industry. Boston and Cleveland noted that firms in some services industries were hiring mostly for replacement. Dallas reported that firms in the energy industry experienced significant regional layoffs as a result of the deepwater drilling moratorium. San Francisco noted continued high levels of unemployment and limited hiring.

Wage pressures remained largely contained across most Districts. Boston, Philadelphia, Richmond, Minneapolis, and San Francisco reported little or no change in wages, while Cleveland, Chicago, and Kansas City reported that wage pressures were small or remained subdued. Dallas reported that wage pressures were mostly nonexistent, with the exception of the airline industry.

Prices of final goods and services were relatively stable in most Districts. Several Districts indicated that prices of raw materials also held steady, and only a few Districts reported input price increases. Steel prices moved slightly higher in the San Francisco District, but Cleveland and Chicago reported that steel prices were down. Chicago and San Francisco noted an increase in energy prices, but Atlanta reported that energy prices were mostly stable since the onset of the Gulf oil spill. Increased prices were noted for some metals by the Philadelphia, Minneapolis, and San Francisco Districts. Transportation costs increased in the Atlanta, Dallas, and San Francisco Districts, and the Richmond District noted that shipping lines were attempting to raise rates.

FIRST DISTRICT – BOSTON

Business activity continues to expand overall in the First District, but individual firms' gains show some choppiness. Most contacted manufacturers and advertising and consulting firms saw revenues rise in the most recent quarter on a year-over-year basis, while retail results were more mixed in May and June. Residential real estate markets continue to show positive effects of the homebuyer tax credits, but activity slowed after the April deadline. Respondents in commercial real estate were mostly downbeat based on office job forecasts, but building sales are picking up, in some cases at distress prices. A few firms with rising sales are increasing their headcounts, but most are holding employment steady. Input costs for some metals, oil- and food-related products have risen, but sales prices are mostly stable.

Retail

First District retailers report mixed sales results for May and June; year-over-year same-store sales figures range from down close to 3 percent to increases of about 3 percent. The majority of contacts express concern over consumer confidence, and even those retailers reporting sales increases voice a cautious outlook.

Inventory levels are mixed, with some increases due to softening sales; on the other hand, decreased ocean freight capacity is raising concerns regarding firms' ability to restock in a cost-effective and timely manner. Capital spending is also mixed, with some retailers spending on new store openings, remodels, and IT systems, while others remain cautious. Headcounts are growing modestly, with most increases attributed to opportunistic hiring and new store growth, but a few contacts indicate that staff cutbacks may occur in the future. Retailers note cost increases for cotton and food-related commodities.

Manufacturing and Related Services

Many manufacturing firms are still finalizing their second quarter results, but the vast majority of those contacted report optimism about demand. The specific sales reports range from "extraordinary demand" at a semiconductor firm to less-than-anticipated demand at two firms making life science equipment and medical devices. In particular, the semiconductor firm reports sales in the second quarter were 17 percent above their pre-recession peak. Other semiconductor-related firms also report relatively strong sales. In addition, second quarter results appear to be somewhat better than expected at a business services company as well as a company whose sales of outdoor-related products benefited from the warmer-than-average temperatures. By contrast, among firms reporting weaker-than-expected sales growth, one speculated that it was due to a slowdown in European demand and the other to state and local budgetary cutbacks on medical equipment. In general, nearly all of the manufacturers surveyed feel that demand will continue to improve gradually in the second half of the year as well as in 2011.

Most contacted manufacturing firms continue to report limited price pressure. Input costs remain relatively stable. One manufacturer who uses many raw metals in the production process says that prices remain higher than a year ago, but have come down somewhat since the first quarter. A couple of firms who use oil-related products also report somewhat higher input prices. Selling prices are generally fairly stable. One manufacturer that implemented a moderate (3 percent) price increase in the first quarter says that the increase held. By contrast, a firm that makes both capital equipment and consumables cites downward price pressure on the capital goods they sell (as companies remain wary about the costs of large items), but not on the consumables; this has been the case for about a year.

Employment continues to be steady at nearly all responding manufacturing firms, and most say they are unlikely to expand headcount substantially in the near term. A number of firms plan to hire to support new product lines or in divisions that are experiencing robust growth. A semiconductor-related firm, in particular, plans to increase its engineering workforce by about 150 by year-end; that firm's employment is already above its pre-recession peak due to strong demand.

Manufacturers once again report that their planned 2010 capital expenditures are in line with or somewhat higher than their expenditures in 2009. Planned increases are primarily for new product releases and/or infrastructure and IT-related improvements. Credit supply remains adequate for firm investment, and many manufacturers also report having adequate cash on hand for investment purposes.

Overall, contacted manufacturers are generally optimistic about the second half of 2010 and 2011. The firms remain cautious, however, as uncertainty continues to surround the domestic and foreign demand environments.

Selected Business Services

Consulting and advertising contacts in the First District generally report increased demand for their services in the second quarter of 2010, although a few say demand is flat. Among those seeing increases, revenue rose 8 percent to 25 percent year-over-year. Contacts cite healthcare and private equity industries as markets in which activity increased; a consulting firm also notes a significant increase in demand from the U.S. government regarding international development and healthcare issues. One contact reports that the payment cycle from its clients lengthened in the second quarter, slowing revenue growth.

Consulting and marketing firms indicate that business costs are stable and they are also generally holding their list prices steady, although some firms have been able to remove the price concessions they made in 2009. Several companies mention that they are replacing their laptops and purchasing new software licenses. Employment is mostly steady, with firms simply making replacement hires or modestly increasing the number of employees; more hires are expected in the second half of the year. Wages are either stable or rising slightly, by 2 percent to 5 percent.

Advertising and consulting contacts are optimistic about their firms' performance in the second half of the year, primarily based on the increasing volume of sales and the improving economic situation. However, many respondents see downside risks to this outlook, notably the chance of a double-dip recession; firms that contract with the government also note that budget cuts in response to deficit concerns would harm their businesses.

Commercial Real Estate

Commercial real estate contacts give mixed reports this round. Leasing activity is flat in Hartford, where market sentiment remains subdued. Between the first and second quarters, Hartford's office vacancy rate rose by close to 2 percentage points while rents were roughly flat. Industrial vacancy in Hartford also rose over the quarter, but by less than a percentage point, and industrial rents were flat. Hartford's investment sales market remains largely dormant. The word from Providence is more upbeat, as leasing activity remained solid in recent weeks and rents have reportedly stabilized. Business sentiment in Providence is described as more optimistic and less uncertain than it was earlier in the year. Absorption was roughly zero across Rhode Island. Office-building sales in Rhode Island remain scarce, but the industrial sales market saw some significant transactions. In Boston, one contact remains largely negative about current market conditions and near-term prospects, emphasizing slow job growth and the high office vacancy rate—currently around 20 percent in greater Boston. Leasing velocity is described as either steady or up slightly, but tenants retain very strong bargaining power on rents and improvements. Contacts say investors are bidding aggressively for fully leased, high-quality properties in greater Boston, especially apartment buildings; at the same time, some investors are purchasing distressed properties (with high vacancy rates) in the suburban corridor at steep discounts and betting on a solid recovery.

With regard to commercial real estate debt markets, one noteworthy development is that special servicers (who manage CMBS issues) are reportedly starting to dispose of an increasing number of securitized mortgages in default rather than continuing to extend troubled loans. This trend is expected to accelerate over the next 6 to 12 months. At the same time, banks continue to hold large sums of distressed commercial real estate debt and have not yet initiated large numbers of foreclosures. Contacts across the region remain concerned about the potential impact of inevitable foreclosures, especially if a large number occur in a compressed time period; contacts say, however, that New England is likely to fare relatively well compared to other regions with respect to commercial foreclosures.

In Hartford, expectations for market turnaround were pushed back a quarter, out to late 2010. In Boston, contacts expect net absorption to remain slow, and predict that office rents still have further to fall, but were uncertain as to whether job growth (and related demand for commercial space) would continue at current levels or become weaker in the second half of 2010. The outlook for Providence is cautiously optimistic, but “optimistic” was defined as slow growth rather than further deterioration.

Residential Real Estate

Residential real estate markets in New England continue to experience large year-over-year sales increases in May and into June. Median home prices also increased modestly year-over-year in May, although median condo prices were somewhat mixed. While April 30 was the deadline to sign a “binding sales contract” in order to be eligible for the homebuyer tax credits, buyers are allowed to close these deals as late as September 30 (extended from June 30). The strong sales numbers of May and June thus reflect closings on pre-April 30 contracts spurred by the tax credits. Respondents report that activity has slowed considerably since the expiration of the tax credit. Sales numbers will soften over the next couple of months as a result of this slowdown, although respondents are uncertain whether sales will show year-over-year declines. Pending sales of homes and condos in Massachusetts dropped 16 percent and 21 percent year-over-year in June, respectively.

A New Hampshire contact says that some types of homes are still selling well, notably those in convenient locations near major highways. Meanwhile, prices in rural New Hampshire are “plummeting.” In addition, high-end vacation homes are starting to move again after very low activity during 2008 and 2009. A Boston-area contact believes that pent-up demand among potential buyers (because inventory was low) will help moderate the size of the slowdown associated with the expiration of the tax credit.

SECOND DISTRICT--NEW YORK

The Second District's economy has shown further signs of strengthening, on balance, since the last report. Input price pressures have receded a bit, while consumer prices appear to be steady. There are signs of improvement in the labor market across a range of industries. Manufacturing-sector contacts report some recent leveling off in business activity, after a strong second quarter. General merchandise retailers report ongoing improvement in business, with sales running on or above plan and inventories reported to be at favorable levels. Auto dealers report that sales have tapered off in recent weeks but remain ahead of 2009 levels. Tourism activity in New York City has continued to be robust since the last report, helped by a reported pickup in business travel. Commercial real estate markets have generally been steady since the last report, while residential real estate markets have shown signs of softening. Finally, bankers report a pickup in demand for both consumer and home mortgage loans but some slippage in demand for commercial loans and mortgages; they also report declining consumer delinquency rates and less widespread tightening in credit standards than in recent months.

Consumer Spending

Non-auto retailers report that sales have remained on or above plan since the last report, with comparable-store gains of roughly 5 percent over a year earlier in June and 8-12 percent in early July. Contacts report particular strength at New York City stores, whereas a major mall in upstate New York indicates more moderate growth. Contacts generally indicate that sales of fashion items and apparel were particularly strong, whereas sales of big-ticket appliances were relatively sluggish. Inventories are reported to be at satisfactory levels, while selling prices are stable to down slightly; prices are expected to remain steady during the second half of 2010 and rise modestly in 2011.

An association of auto dealers in upstate New York reports that sales of new autos, which were up 10 percent from a year earlier in May, retreated a bit in June but were still up moderately from comparable 2009 levels. Used auto sales have been running lower than a year ago, due largely to lean inventories. Dealers report that retail credit conditions have remained favorable and that wholesale credit conditions have improved. Consumer confidence weakened noticeably in June: The Conference Board reports that confidence among residents of the Middle Atlantic states (NY, NJ, Pa) fell to its lowest level this year, and Siena College's latest survey of New York State residents shows confidence slipping to its lowest level in more than a year.

Tourism activity in New York City has grown increasingly robust since the last report. Manhattan hotels indicate that occupancy rates rose to a record high for May and remained exceptionally high in June—even with a sizable increase in the number of hotel rooms over the past year. Room rates are running 10 to 15 percent higher than a year earlier, and total revenues are reported to be up more than 20 percent. Much of the recent improvement is attributed to a rebound in business travel. Broadway theaters report that attendance remained brisk in June but tapered off moderately in early July. Revenues were up 3 percent from a year earlier in June and little changed in July.

Construction and Real Estate

Housing markets have softened somewhat, on balance, since the last report, with much of the weakening attributed to the expiration of the home-buyer tax credit. An authority on New Jersey's housing industry characterizes housing demand as sluggish and lacking momentum. Activity has tapered off, while transaction prices for both new and existing homes appear to be drifting down. Northern New Jersey's rental market has also slackened, with a growing number of available units on the market and landlords offering more incentives and concessions; a number of buildings initially intended as condos have converted to rentals. Similarly, Buffalo-area Realtors report that home sales activity weakened substantially in May and June, reportedly due largely to the expiration of the extended homebuyers' tax credit, though selling prices continued to run ahead of comparable 2009 levels.

In New York City, conditions were more mixed, with co-op and condo sales activity picking up in the second quarter but prices generally holding steady. The number of apartment sales rose by a bit more than the seasonal norm in the first quarter. The median sales price of an apartment was down 7 percent from a year ago in Queens but up 5 percent in Brooklyn. In Manhattan, the median price rose roughly 8 percent from a year earlier, but the price per square foot was virtually unchanged. Manhattan's rental market, though still well below its peak of a few years ago, appears to be on the rebound: leasing activity picked up noticeably, rents have stabilized, landlords are giving less generous concessions, and the inventory of available rentals has declined.

Commercial real estate markets across the District were mixed but, on balance, little changed since the last report. Office leasing activity picked up considerably in New York City, and vacancy rates declined modestly, but asking rents are still down more than 20 percent from a year ago. Vacancy rates were steady in Long Island and Northern New Jersey, while asking rents were down slightly—compared to both the first quarter and a year earlier. In Westchester and Fairfield counties, market conditions improved slightly, as vacancy rates edged down and asking rents rose. Office markets were mixed in upstate New York: vacancy rates edged up in most major markets but asking rents continued to run modestly above year-ago levels. Industrial markets were mostly softer in the second quarter: industrial vacancy rates rose across most of upstate New York and in Westchester and Fairfield counties but were little changed in Long Island and down modestly in northern New Jersey. Industrial rents were down moderately from a year ago in most areas. Finally, Manhattan's retail leasing market picked up in the second quarter, while northern New Jersey's remained stable. Commercial development remains very sluggish in general, though developers plan further hotel construction in New York City.

Other Business Activity

Manufacturing firms in the District report some leveling off in business activity in recent weeks, after reporting fairly widespread improvement in the second quarter. Firms still report that they are adding workers, on net, but to a less widespread degree than in recent months. Contacts outside the manufacturing sector, however, report some recent improvement in general business conditions and a pickup in employment. Contacts also remain fairly optimistic about the near term outlook and plan to expand hiring activity and capital spending moderately in the months ahead. Both manufacturers and other firms report moderate increases in prices paid but virtually no change in selling prices.

A major NYC employment agency, specializing in office jobs, reports that hiring activity has picked up since the last report, as demand from the legal sector remains brisk and financial sector hiring has picked up in recent weeks. Salaries for administrative jobs have started to edge up. There has been a relatively light flow of 2010 college grads looking for jobs. Separately, a securities-industry contact notes that, while there are ongoing layoffs in certain areas related to mergers and restructuring, major firms are hiring in the areas of accounting, compliance, and systems development. Compensation at large financial firms is reported to be holding relatively steady.

Financial Developments

Contacts at small to medium sized banks in the District report that loan demand was mixed across the consumer and commercial loan groups: demand tended to increase for consumer loans and residential mortgages but decrease for commercial mortgages and commercial and industrial loans. This marks the first time since 2005 that more respondents reported rising than falling consumer loan demand. Bankers' responses also suggest a continued increase in refinancing activity.

Respondents indicate a tightening of credit standards for all categories except consumer loans, though the tightening across all segments is reported to be less widespread than it has been at any time in the past three years. Spreads of loans rates over cost of funds are indicated to be steady for consumer loans and residential mortgages but higher on commercial loans and mortgages. Banks mostly indicate that average deposit rates have decreased. Finally, respondents reported a decrease in delinquency rates for consumer loans but little or no change in delinquencies in other loan categories.

THIRD DISTRICT – PHILADELPHIA

Economic activity has moved up slightly in the Third District since the last Beige Book, overall, although several sectors of the regional economy remained soft. Manufacturers, on balance, reported an increase in shipments but a slight decline in new orders in July. Retailers posted year-over-year increases in sales of general merchandise for the month, but motor vehicle dealers indicated that sales have decreased since the spring. Third District banks reported steady loan volume outstanding. Residential real estate agents and home builders said that home sales decreased sharply with the expiration in April of the federal tax credit for purchases and that sales have continued to be soft since then. Contacts in the commercial real estate sector said vacancy rates have been nearly level, but rents have been flat to down. Construction contacts continued to report low levels of activity. Service-sector companies generally reported just slight gains in activity. Business firms in the region indicated that prices of most goods and services have been steady, although there were increased reports of rising prices for some metals and construction-related products. Firms also reported increases in costs for employee health insurance.

The outlook among Third District business contacts is guardedly positive, but the level of optimism has waned somewhat since the last Beige Book. Manufacturers forecast a rise in shipments and orders during the next six months, although the balance of positive over negative views has declined since the previous report. Retailers expect sales to expand slightly but believe consumer confidence remains fragile. Auto dealers expect the sales rate to be steady in the months ahead, retreating from their previous view that sales would increase. Bankers expect slow growth in lending. Contacts in both residential and commercial real estate expect mostly flat activity during the rest of the year. Service-sector companies expect slow and uneven improvement.

Manufacturing

Third District manufacturers reported a modest increase in shipments but a slight decline in new orders from June to July, on balance. Order backlogs also fell, overall. Among the major manufacturing industries in the region, producers of wood products, chemicals, and basic materials reported increases in orders; but orders were unchanged or declined in a majority of manufacturing sectors. In general, manufacturers continued to describe the increase in demand for their products as slow and uneven. One manufacturer said, “It has been very choppy. We seem to be getting some traction, then orders dry up.”

Third District manufacturers expect business conditions to improve during the next six months, on balance, although the margin of positive opinions over negative opinions has declined since the previous Beige Book. Among the firms surveyed in July, about 40 percent expect increases in new orders and shipments, and 20 percent expect decreases. Capital spending plans among area manufacturers remain positive, on balance, but are not strong overall. About one-third of the firms polled in July plan to increase expenditures for new plant and equipment, but nearly one-half plan to maintain level spending, and nearly one-fourth expect to reduce spending.

Retail

Third District retailers reported that sales in June increased slightly compared with June of last year and that year-over-year growth continued at around the same modest pace in July. Most retailers said warm weather boosted sales of summer apparel, and some noted increases in sales of jewelry, but many reported that sales of home goods, especially big-ticket appliances, remained weak. Store executives continued to caution that much of the year-over-year improvement in sales was a consequence of last year’s poor results and that this easy comparison will also affect the upcoming back-to-school and year-end holiday period. Most retail contacts agreed with the evaluation of a store official who said, “The consumer is still cautious and looking for value.”

Third District auto dealers reported a drop in sales from May to June, with continued slowness in July. Although dealers said there continue to be shortages of popular models, they said overall demand for cars and light trucks has not been as strong recently as it was earlier in the year. Dealers have trimmed expectations since the last Beige Book; they now anticipate little change in the sales rate during the rest of the year.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has been flat since the last Beige Book, and commercial bank lending officers said there has been little change in loan balances in any credit category. Some bankers reported that demand for business loans has increased, but demand for residential real estate and consumer credit has eased. Commercial bank officers indicated that credit quality has continued to improve slightly, but delinquencies and defaults remain above historical norms.

Looking ahead, Third District bankers expect slow loan growth, at best. They generally expect slight gains in business lending but continued softness in consumer and residential mortgage lending. Bank lending officers said credit standards remain more restrictive than they had been in the past few years. For business borrowers, one banker said this means a firm “must have stable relationships with customers and vendors and show reasonable expectations about cash flow” to be considered for new or renewed credit facilities.

Real Estate and Construction

Contacts in residential real estate markets reported sharp decreases in sales of new and existing homes after the expiration of the federal income tax credit for home purchases in April. The sales pace continued to be slow in July, according to real estate agents and builders. Residential real estate contacts expect sales during the rest of the year to be weak. One agent, whose remarks echoed many others’, commented that “There was a lot of front loading to take advantage of the tax credit, and it remains to be seen how much activity there will be going forward.” For both new and existing homes, contacts reported little change in prices, although in some parts of the region where foreclosures and short sales have been common, real estate agents said existing house prices continued to be under downward pressure.

Nonresidential real estate firms indicated that vacancy rates in commercial and industrial buildings have been nearly steady or have moved up slightly in most parts of the Third District in the past few months. Leasing activity has been flat, and effective rents have been about level for Class A space but have moved down for Class B space. Construction activity has been weak. Some contacts reported that projects financed by federal stimulus funds are near completion or have been finished and that there are no immediate prospects for more major infrastructure construction. Commercial real estate contacts expect market conditions to show little change in the second half of the year. One said, “We’re stabilizing, but if companies cut space needs the market will be dragged down.”

Services

Service-sector firms generally reported slight improvement since the last Beige Book. Transportation companies reported increases in freight volume, and some information technology service providers have had slight recent increases in business. However, firms providing services to the construction industry continued to report low levels of activity. Looking ahead, most of the services firms contacted for this report expect growth to be slow and irregular for the rest of the year. One contact noted, “Demand from customers is coming only on a project basis.”

Prices and Wages

Reports on input costs and output prices indicate little change since the last Beige Book. Most of the manufacturing firms polled in July reported no change from June in the costs of the commodities they use or the products they make. However, producers of primary metals raised prices. Home builders noted some increases in prices for lumber and drywall. Retailers generally noted that both wholesale costs and retail prices have been mostly steady. Across industries, firms reported increases in health-care costs as they negotiate new insurance contracts.

Business firms in the region reported little or no upward movement in wages, and most indicated that they have had no difficulty in filling open positions. Employment agencies reported that client companies have been cautious in adding employees or replacing those who have left, although they have increased use of temporary workers on an as-needed basis. Labor markets remain slack, according to employers and employment agencies, who report that they generally get large numbers of applicants for permanent positions; however, they also noted that they get smaller numbers of applicants for temporary positions.

FOURTH DISTRICT – CLEVELAND

On balance, economic activity in the Fourth District held steady during the past seven weeks. Manufacturers reported that the rise in production which began late last year is leveling off. Contacts in nonresidential construction cited fewer inquiries and a small drop in backlog, while residential builders noted that new home construction has slowed. Retail sales were flat to up slightly, whereas auto dealers reported a slight downturn in new vehicle purchases. Energy production increased modestly, and reports indicated a continuing upturn in freight transport volume. Demand by businesses and consumers for new loans remained weak.

A small pickup in employment was limited to the manufacturing sector. Staffing-firm representatives reported some improvement in the number of new job openings, with opportunities concentrated in the healthcare field. Wage pressures continue to be contained. Apart from a downward trend in steel and lumber prices, raw materials and product pricing was generally stable.

Manufacturing. Reports from District factories show that production levels were mainly steady or down slightly during the past seven weeks. Manufacturers who cited increased output attributed it to seasonal factors. Production was higher on a year-over-year basis, with many contacts citing double-digit increases. A large majority of respondents believe that demand growth seen earlier this year is tapering off, and they expect production will stabilize at current levels or show a modest decline. Most steel producers and service centers reported a slight downturn in volume, which was expected. Shipments are being driven primarily by energy-related and metal fabrication industries. Construction volume remains very weak. Although this time of year is traditionally slow for the steel industry, our contacts are not overly confident that shipments will pick up in the fourth quarter. District auto production was fairly stable in June on a month-over-month basis, while year-over-year it rose substantially for both domestic and foreign nameplates.

Little movement was seen in inventories, although we heard a few reports that finished durable goods inventories were beginning to rise. A majority of our contacts stated that their capacity utilization rates are below pre-recession levels, with little change during the past few weeks. Capital outlays continue at relatively low levels, and business owners are approaching spending decisions with caution. Steel producers and service center representatives reported that their prices are on the decline, reflecting a downward trend in steel production input costs. Other raw material costs have been fairly stable. Companies continue to expand payrolls and extend work hours, but at a slower pace. Wage pressures are contained.

Real Estate. In general, new home sales have slowed during the past seven weeks and on a year-over-year basis. Most of our contacts cited tight credit as one of the primary factors contributing to the slowdown. Homebuilders are not expecting a turnaround in new home construction this year, with several anticipating a further decline in sales. Our contacts tell us that entry-level homes are beginning to regain sales momentum, with lessening activity in the move-up and third-time home-buyer categories. Little change was noted in the list prices of new houses, and reports indicate that the rise in construction material costs is leveling off, especially for lumber products. Skeleton crews remain the norm for general contractors and subcontractors.

Signs of a pickup in nonresidential construction cited in our past two reports are beginning to diminish. Although building activity remains steady, several of our contacts reported declining inquiries and a slight drop in their backlogs. Most inquiries and new projects underway fall within the industrial and government-funded infrastructure categories. The glut in commercial space shows no signs of lessening. Half of our contacts expressed a heightened level of uncertainty about construction activity in the near term, though others remain cautiously optimistic. Little change in construction material costs was reported. We heard numerous accounts of contractors and clients struggling to obtain financing. Other than seasonal hiring, employment rolls are steady. Many subcontractors remain underutilized and are taking on projects at cost.

Consumer Spending. For the period from mid-May through mid-June, retail sales were generally flat or up slightly when compared to the previous 30-day period. Purchases of apparel and food products are doing well, while spending on discretionary items has weakened. Retailers are somewhat less optimistic about future sales than in our last report; however, they still expect buying to show a small improvement going into the fourth quarter. Vendor and store pricing has been stable. Most auto dealers saw new vehicle sales slow from mid-May through mid-June, when compared with the previous 30 days. Dealers indicated that the rising sales trend present in the spring has leveled off, and they are not expecting a return to robust growth in the near term. Many dealers said that their inventories are low, which was attributed to seasonal factors. Used vehicle purchases were characterized as holding up reasonably well. Our contacts told us that they are finding it more challenging to arrange financing for customers with less than the highest credit rating. Reports show little change in staffing levels at retailers or auto dealers.

Banking. The market for business lending remains soft, with bankers characterizing the demand for new loans as flat to improving slightly. Interest rates are stable. On the consumer side, loan demand is generally weak. Those seeing a slight uptick attributed it to draw-downs on home equity lines of credit. We heard a few reports of downward pressure on auto loan rates. The residential mortgage market continues at a slow pace, with several bankers noting that activity is below expectations, given current mortgage rates. Core deposits are steady or up at most banks, with much of the growth occurring in transaction accounts. Reports on credit quality were mixed. Delinquency rates declined or held stable for nearly all banks; still, several of our contacts noted that delinquencies remain above historic norms. Employment rolls and wages are stable.

Energy. Reports show little change in oil and natural gas output during the past seven weeks, with output expected to remain flat in the near term. Spot prices for natural gas rose slightly, while oil prices dropped. Reports on coal production have grown more positive. Export producers are experiencing increased demand for both steam and metallurgical coal, while unseasonably warm weather increased the demand for coal by electric utilities. Prices for coal were mixed but are tending to the up side. Production equipment and materials costs were generally flat. Staffing levels are steady, and little hiring is expected in the near future. Wage pressures are contained.

Transportation. Freight transport executives reported continuing favorable volume trends, with only moderate gains to their bottom lines. Although most of our contacts are cautiously optimistic in their outlook, they expect that the rate of volume growth experienced in the second quarter will begin to moderate. One contact noted industry-wide concern over the strength of consumer demand. Several respondents commented that they are attempting to negotiate rate increases, with some degree of success. Major capital purchases remain at or near replacement rates. However, due to aging fleets and growing demand, the need to replace equipment may grow toward year-end. Several of our contacts noted that quoted prices for tractors and trailers are rising. Current hiring is primarily for replacement only. If volume continues to build, freight executives expect to add capacity in the near term.

FIFTH DISTRICT–RICHMOND

Overview. District economic activity was generally described as either mixed or modestly improving since our last report. While manufacturing remained a bright spot, the pace of activity reported in our last assessment appears to have eased somewhat—particularly among firms supplying the housing sector. Port authorities reported a pick-up in activity, led by recent increases in import volumes. Bank lending to businesses improved moderately, while home mortgage lending varied widely around the District. Tourism also strengthened. In addition, local labor markets posted modest gains, with temp agencies reporting gains especially from the manufacturing sector. On a weaker note, residential real estate agents and contacts at other services firms described activity as mixed. Finally, commercial real estate agents and retailers reported generally softer market conditions, but both sectors cited at least some pockets of improvement.

Retail. Retail sales weakened since our last report. Several auto dealers reported that light vehicle sales dropped, and a North Carolina medical devices supplier said payers were trying to negotiate lower reimbursement rates on durable medical equipment. In addition, a contact at a large home and garden chain reported that impulse buying fell, and that home remodeling purchases had scaled back dramatically as consumers "splurged small." Overall, according to our District survey, big-ticket purchases and shopper traffic plummeted. Many District retailers indicated that inventories continued to decline in recent weeks. Merchants increasingly cut jobs, and retail prices advanced only slightly faster since our last report.

Services. Contacts and survey respondents at non-retail services firms reported mixed activity during the past four weeks. For example, several businesses indicated that their revenues had contracted, while others reported an uptick, with the caveat that they are not seeing significant strengthening in their markets. Several contacts at professional, scientific, and technical firms said their businesses experienced increased demand for services since our last report, while a financial advisor at an investment services firm said conditions were "stable." Several healthcare-related businesses cited little change in demand in recent weeks, but a West Virginia nursing home administrator said the economy and healthcare reform put downward pressure on his business. Many respondents to our service sector survey reported that price increases slowed at services firms.

Manufacturing. District manufacturing continued to expand in June and early July, albeit at a slower pace than a few months ago. Most of our District survey respondents reported that growth in their shipments and new orders had moderated, while several contacts noted that their employment edged higher. A parts supplier reported a significant increase in demand from auto manufacturers, with business being well ahead of expectations. In addition, a tire producer informed us that his customers had depleted their inventories, which caused him to expect an increase in orders soon. Moreover, a contact at a textile plant commented that his company had built inventory in anticipation of continued price increases for synthetic fibers. He noted, however, that his customers continued to maintain low inventory levels, with current sales higher than replenishment rates. In contrast, a furniture manufacturer noted that his company had reduced its workforce by half due to weak conditions in the housing market. Similarly, a manufacturer of exterior doors for residential housing indicated that the previous uptick in demand for building products had now vanished.

Port activity in the District picked up since our last report. One contact stated that total shipping volume at his port was back to pre-recession levels. While exports had been improving over much of this year, he noted that imports were now increasing as well. A contact that handles a variety of roll-on cargo stated that about two-thirds of the recent gains in port activity were being driven by imports. At least some of the import gains were attributed to inventory restocking. Several port officials noted that shipping lines were attempting to raise rates.

Finance. Banking activity over the last six to eight weeks improved modestly, but gains were uneven. For example, several bankers noted an increase in commercial lending, although one lender stated that commercial lending had weakened. Contacts noted that increased lending went to support high-tech and export activity, as well as auto dealer inventory. An increase in merger and acquisition activity was also noted by several sources. One banker reported a marginal improvement in small business lending, while an analyst for a large bank reported a retrenchment in consumer borrowing. A small community banker stated that the bank's own auto loans had edged down as other banks returned to the market, increasing loan competition. Reports on home mortgage lending varied, with some bankers reporting improvements and others still experiencing declines. A loan officer at a community bank stated that refinancing was a significant portion of his mortgage lending activity in recent weeks. Most contacts stated that credit quality was slowly improving from a weak base, although one source noted that delinquencies on both residential and commercial loans were still "off the charts."

Real Estate. Reports from residential Realtors varied across the Fifth District. Several contacts reported that home sales slowed since the expiration of the federal government's tax credit program. However, other contacts indicated that sales in the upper-middle price bracket were still moving, at least in some areas of the District, while one agent noted that single-family homes in suburban neighborhoods were experiencing the most activity. Another agent reported that houses priced below $150K remained the best sellers, due to more foreclosure-related and short sales. A Realtor in Richmond reported that the metropolitan market in recent weeks did not meet the company's expectations in July. An agent for a major realty chain noted that the average number of days on the market for most homes remained high.

Commercial real estate markets continued to weaken since our last report, with at least one contact not expecting improvements until well into the future. According to one contact in North Carolina, vacancy rates in most metro areas remained relatively high and were still rising in some areas. Vacancy rates were particularly high in the retail sector in both Richmond and Baltimore, according to several agents. Retail and office leasing activity was reported to be improving in Columbia, S.C., as well as in parts of North Carolina. Commercial rental rates in parts of North Carolina were being driven down by property owners' fears that things could get worse, and an agent stated that retail rental rates remained negotiable in Richmond. One contact stated that new construction financing was "not going at all."

Tourism. Tourist activity increased since our last report. Along the coast, contacts reported that bookings over the July 4th holiday weekend were much stronger than a year ago. A hotelier from Virginia Beach noted that his hotel was filled to capacity, even though room rates had jumped dramatically. A contact in Myrtle Beach said that visitation was up 10 to 12 percent in recent weeks compared to a year ago, but consumer spending was still below pre-recession levels. He attributed some of the increase in visits and spending to tourists changing vacation plans from the Gulf to the eastern seaboard. Moreover, an analyst from the Outer Banks of North Carolina indicated that restaurants were full and sales at gift shops were flourishing. Managers at mountain resorts reported that holiday reservations were the best in years and that time shares were rented for most of the summer. They noted, however, that although tourists were spending slightly less on food, they were spending considerably more on recreational activities and merchandise.

Labor Markets. Labor market activity picked up slightly in recent weeks, according to most contacts. Several firms reported adding jobs for at least a third straight month. A services firm increased its hiring due to rising demand, but several retailers reported job cuts. Temporary employment agents reported slow, but steady increases in hiring by small or mid-sized businesses—especially in manufacturing. For example, a contact at an automotive plant told us that temporary employment workers had been hired to help with the increase in production. One temp agent noted an increase in the number of employees being hired on a permanent basis by his clients. Increased demand for temporary workers was reported for a diverse set of industries, including warehouse and distribution centers, manufacturing plants, and pharmaceutical firms. Most respondents to our manufacturing and service sector surveys indicated that wages were little changed since our last report.

SIXTH DISTRICT – ATLANTA

Summary. Reports from Sixth District business contacts indicated that the pace of economic activity slowed somewhat in June and early July. Retailers reported a slight increase in traffic and sales, but their outlook was less optimistic than the last report. Tourism reports were generally positive, however, significant concerns were expressed over the potential impact from the oil spill on the Gulf coast. Residential real estate contacts suggested that the pace of new and existing home sales slowed, and their outlook was pessimistic. Commercial real estate remained weak. Manufacturers saw a slight deceleration in activity as the pace of new orders and production growth slowed. Banking credit conditions remained tight and loan demand was subdued. Businesses continued to increase the hours worked of existing staff and to expand their use of temporary hires. Permanent hires were less apparent. Transportation and material costs rose slightly, but most firms expressed no intention of passing these increases along to consumers.

Consumer Spending and Tourism. Most District merchants noticed a slight increase in traffic and sales in June and early July. Retailers also mentioned that despite the uptick in sales, they continued to keep inventory levels low. Although most merchants have reported improved conditions since the beginning of the year, sales levels remained well below pre-recession levels. The outlook among retailers was more subdued than in previous months. Automotive dealers reported that sales improved from a year ago.

Overall, tourism continued to show signs of improvement compared with last year. Reports from Miami and New Orleans indicated that business-related travel and convention bookings remained positive. Leisure travel was positive in most District destinations except for the Gulf coast where significant concerns were reported over the oil spill and its impact on tourism. Hospitality contacts in the area remarked that some cancelled bookings have been substituted by the presence of clean-up crews, oil company workers, and the National Guard. Contacts not located along the Gulf coast have stated that there have been increased bookings as a result of deflected business from oil-affected areas.

Real Estate and Construction. District residential real estate brokers and homebuilders reported that home sales weakened notably in June and early July on a year-over-year basis. Contacts also indicated that sales fell on a month-over-month basis. However, several brokers remarked that June sales were boosted by closings associated with the housing stimulus. Buyer traffic continued to soften across the region. Realtors noted that existing home inventories rose outside of Florida on a year-over-year basis, while Florida inventories declined modestly. Similar inventory trends were seen on a month-over-month basis. New home inventories remained below the year-earlier level, and construction activity softened from already weak levels. Both Realtors and builders shared concerns about the housing market going forward; the outlook weakened and sales growth over the next several months is anticipated to be slightly negative.

Nonresidential construction activity continued to be weak. The majority of contacts noted that the pace of commercial development was below the year-earlier level and backlogs remained at low levels. Vacancy rates were high across the District and contacts witnessed downward pressure on rents. The outlook for the rest of the year remained negative.

Manufacturing and Transportation. Almost half of District manufacturers contacted stated that new orders and production grew at a slower pace in June than in the previous report. The number of firms experiencing higher levels of orders decreased notably compared with the previous report, while the number of contacts planning to expand production in the near future dropped as well. Freight activity remained above weak year-earlier levels, led by increased shipments of motor vehicles, metals, and chemicals.

Banking and Finance. Industry reports indicated that banking conditions weakened across much of the District. Several bankers reported that credit remained available to qualified customers. Consumers seemed reluctant to take on additional debt, however. Contacts also cited declining credit card use as consumers continued to deleverage. Business loan demand was also muted.

Employment and Prices. Private payroll employment increased slightly through early July across the District, although many businesses maintained a strong preference for increasing existing staff hours and using temporary staff rather than hiring full-time, permanent employees. In addition, the outlook regarding labor market conditions along the Gulf coast remained tempered by the impact from the oil spill.

Despite reports of raw materials and transportation cost increases, most firms conveyed no plans to pass the increases on to consumers. Several contacts remarked that excess production capacity and competition continued to put downward pressure on prices in a variety of sectors.

Natural Resources and Agriculture. Local energy prices and oil production have remained mostly stable since the onset of the oil spill in late April. Gulf of Mexico crude inventories continued to hover near the top of their average range for this time of year. Nonetheless, a number of businesses expressed concern about the potential impact on long-term energy production and employment from the deepwater drilling moratorium. Industry reports noted recertification of deep and shallow water rigs/wells was underway. Meanwhile, contacts indicated that Gulf ports were operating normally and commerce along the Mississippi River remained uninterrupted.

Dry conditions and high daytime temperatures have resulted in some crop stress in parts of the District, but conditions overall continued to be good for cotton and citrus crops. Cotton plantings have increased on a year-over-year basis.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to improve in June and early July, but the rate of improvement slowed further. Most contacts remained cautiously optimistic. However, increased uncertainty about the path of the economic recovery negatively affected business and consumer confidence and spending. Growth in manufacturing production eased and orders softened. Construction decreased apart from public infrastructure. Consumer and business spending increased at a slower rate. Credit conditions were slightly improved, and price and wage pressures were small on balance. Crop conditions deteriorated modestly.

Consumer spending. Consumer spending increased at a slower rate in June and early July. Retail sales excluding autos edged up. While spending on food and other necessities rose, spending on home-related and luxury items decreased. Retailers reported maintaining relatively low inventories amid dampened optimism for the back-to-school shopping season. The pace of tourism activity also slowed with hotel occupancy increasing at a reduced rate. Auto sales were lower in June, but auto dealers reported showroom traffic picked up in early July in part supported by increased incentives. In addition, several dealers indicated inventories were lower than desired.

Business spending. The rise in business spending moderated further in June and early July. Inventory investment continued to slow in manufacturing, and contacts in retail trade indicated a slower rate of inventory investment for higher priced goods. However, capital spending on equipment and information technology continued to steadily grow. Labor market conditions continued to gradually improve, although the pace of hiring decreased. Contacts noted more caution in hiring primarily due to an increasingly uncertain outlook for the second half of 2010. For example, while temporary hiring continued to increase, it did so at a slower rate. In contrast, a large staffing firm noted billable hours from the industrial sector remained strong and had accelerated for the information technology sector. Moreover, employment and hours worked continued to expand in manufacturing.

Construction/real estate. Construction activity decreased from the previous reporting period. Residential building was minimal as builders were not introducing new inventory without a signed contract on a home. Sales decreased after the end of the homebuyer tax credit, but showroom traffic and contracts were up slightly in recent weeks. New mortgage applications were down, but the decline was partly offset by an increase in refinance activity as mortgage rates moved lower. Elevated vacancy rates and downward pressure on commercial rents continued to restrain private nonresidential construction. In contrast, public construction increased at a faster rate as infrastructure construction picked up.

Manufacturing. Growth in manufacturing production slowed from the previous reporting period. Orders softened over the course of June and into early July as inventory replenishment decreased. However, contacts remained cautiously optimistic, stressing the seasonal nature of the slowdown. Steel production decreased, and capacity utilization edged lower. A contact indicated that service centers were being cautious with new orders despite the low level of inventories due to declining steel prices and a more uncertain outlook for economic activity. Manufacturers of industrial metals also noted a retraction in activity. Housing and construction-related manufacturers continued to report weak business conditions. Nonetheless, a contact in the household appliance industry indicated that the need to rebuild inventories was likely to boost production in coming months. In addition, automakers reported that sales through the first half of July were above expectations, and automotive suppliers continued to note strength in demand for their products. Demand for heavy equipment also increased, both domestically and abroad. Exporters, in general, cited positive business conditions, but several contacts expressed concern about a potential slowdown in China and European markets.

Banking/finance. Credit conditions were slightly improved in June and early July. Credit spreads narrowed for a number of District firms, and overall borrowing costs decreased. Business loan demand continued to gradually increase, driven mostly by refinancing and acquisition activity. Several banking contacts noted that fierce competition for high quality borrowers was leading to greater flexibility in pricing and terms on business loans. Consumer lending conditions were largely unchanged. However, a contact noted that the gradual reemergence of private mortgage insurance companies was beginning to improve the availability of mortgage credit. In contrast, credit remained limited for commercial real estate. Bank loan quality continued to improve gradually, although a contact indicated that the pace of improvement had slowed in recent weeks.

Prices/costs. Price and wage pressures, on balance, continued to be small in June and early July. Contacts noted increases in the price of energy, paper, plastics, and resins, while prices for industrial metals like steel, aluminum, nickel, and zinc declined. Similar to the previous reporting period, wage pressures increased only modestly. Pass-through of cost pressures to downstream prices remained minimal, with pricing power in most industries continuing to be weak.

Agriculture. Crop conditions varied across the District, deteriorating modestly in June and early July. Excess precipitation in some areas reduced hay output, damaged corn and soybean plants, and forced replanting. However, contacts continued to expect good corn and soybean yields this fall. In the recent period, smaller than expected stocks of corn and soybeans led to crop price increases amidst concerns about how much rationing will occur before the harvest. Hog and cattle prices remained above year ago levels, although they declined during the reporting period. In addition, milk prices increased, aiding the struggling dairy sector. Problems with disease and the need for extra fertilizer pushed up input costs, but crop farmers should be able to cover their production costs for this year. The cost of refinancing debt also put pressure on margins for many livestock operations.

Eighth District - St. Louis

Summary

Economic conditions in the Eighth District have continued to improve since our previous report. Manufacturing activity increased, on balance, as did activity in the services sector. Auto sales increased over a year ago. Residential real estate market conditions continued to improve across the District's largest metropolitan areas, while commercial and industrial real estate markets remained weak, especially construction. Overall lending activity at a sample of small and mid-sized banks in the District decreased from early April to late June.

Manufacturing and Other Business Activity

Manufacturing activity has continued to increase since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants and reduce operations. Firms in the furniture, plastics product, metal pipe, and plastics resin manufacturing industries announced plans to expand operations and hire new employees. Additionally, a major firm in the automobile manufacturing industry announced the opening of a new production facility. In contrast, firms in the motor and generator, furniture, and polystyrene foam product manufacturing industries announced that they will close plants in the District and lay off workers.

Activity in the District's services sector has also increased since our previous report. A major software publishing firm has announced plans to open a new facility in the District and hire new workers. Additionally, a firm in nursing care services announced plans to relocate their headquarters to the District. In contrast, contacts in education services, air transportation support services, and the casino industry announced plans to decrease operations and lay off workers.

Sales of new and used automobiles in recent weeks were reported as higher than a year ago and slightly above expectations.

Real Estate and Construction

Home sales continued to improve throughout the Eighth District. Compared with the same period in 2009, May 2010 year-to-date home sales were up 3 percent in Memphis, 12 percent in St. Louis, 19 percent in Little Rock, and 30 percent in Louisville. Residential construction also continued to improve throughout the District. May 2010 year-to-date single-family housing permits were up in most District metro areas compared with the same period in 2009. Permits increased 27 percent in Louisville, 31 percent in Little Rock, 36 percent in St. Louis, and 52 percent in Memphis.

Commercial and industrial real estate market activity remained slow throughout most of the District. Contacts noted that financing requirements for new construction remained stringent and lease rates remained low. A contact in St. Louis reported that commercial leasing was up in some areas, but new commercial construction projects are not expected before mid-2011. Industrial real estate and construction contacts throughout the District continued to report a flat environment. A contact in Louisville reported that demand for industrial real estate continued to be weak. A contact in the Memphis area reported that while industrial leasing has improved somewhat, no new industrial construction is likely before the end of the year.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 2.0 percent from early April to late June. Real estate lending, which accounts for 73.6 percent of total loans, decreased 1.9 percent. Commercial and industrial loans, accounting for 16.0 percent of total loans, decreased 2.5 percent. Loans to individuals, accounting for 5.3 percent of total loans, decreased 6.5 percent. All other loans, roughly 5.1 percent of total loans, increased 4.1 percent. During this period, total deposits at these banks decreased 1.2 percent.

Agriculture and Natural Resources

Generally, development of the District's major crops remained ahead of its 5-year average pace. In mid-July, the overall condition of rice and cotton was rated as slightly better than last year, while the condition of corn, sorghum, and soybeans was rated as slightly worse. Farmers in the District states planned to harvest more acres of corn for grain and rice in 2010 than in 2009 but fewer acres of soybeans and sorghum for grain. The winter wheat harvest was complete or nearly complete in all District states. Based on July estimates, total winter wheat production in the District states was expected to be down 48 percent from last year. Since our previous report, pasture conditions deteriorated in most District states.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew slightly since the last report. Consumer spending, tourism, manufacturing, energy, mining and agriculture saw increases. Residential construction and the services sectors experienced mixed activity, while commercial construction remained weak. Commercial and residential real estate activity decreased. Labor markets continued to strengthen somewhat. Wages were generally level with a year ago, and price increases remained restrained.

Consumer Spending and Tourism

Consumer spending increased modestly. A major Minneapolis-based retailer reported that same-store sales in June were up almost 2 percent compared with a year earlier. A mall manager in North Dakota noted that recent sales were up 4 percent over last year and were running a little ahead of 2008, when activity was relatively strong. In South Dakota, a mall manager noted that recent sales were mixed; consumers remained cautious as traffic continued to be driven by promotions. A Montana auto dealer noted that June sales were behind a year ago, but July sales have picked up substantially.

Summer tourism was up slightly from a year ago. Representatives of South Dakota tourism businesses and attractions noted that the early part of the summer season was going well. In western Montana, hotel bookings were about the same as a year ago, while Glacier National Park is expected to have a record year due to its 100th anniversary celebration. Tourism activity in the Upper Peninsula of Michigan was about the same as last year. Meanwhile, a Minnesota travel agency noted that corporate sales were up about 20 percent during June and early July compared with 2009.

Construction and Real Estate

Commercial construction remained weak. A commercial contractor in Montana said that the number of projects up for bidding decreased; existing projects were smaller and had more bidders. In contrast, a heavy infrastructure contractor in Minnesota and Wisconsin saw improvement in its market segment. In addition, the value of June commercial permits in Sioux Falls, S.D., nearly doubled from the previous June. Residential construction was mixed. June residential permits increased slightly in value for the Minneapolis-St. Paul area and for Fargo, N.D., compared with the same month a year earlier. However, residential permits decreased substantially in value in Sioux Falls and Rochester, Minn.

Weakness remained in the commercial real estate sector. Office vacancy increased in Minneapolis-St. Paul. A commercial real estate broker in western Montana characterized the market as level with last year's slow activity. Residential real estate activity softened slightly. The number of closed sales in Minneapolis-St. Paul decreased in June from a year earlier. A real estate agent in Fargo said activity was steady, but not as active as usual for this time of year. Meanwhile, a Realtor in northeastern Minnesota recently noticed an increase in inquiries for properties.

Services

Activity in the professional business services sector was mixed since the last report. An engineering firm that supports the mining and energy sector noted an increase in activity. A human resources consulting firm noted a slight uptick in new business. Architectural firms reported slow demand. Information technology consultants reported that business was flat with a lot of maintenance projects rather than new software development. A firm that assists nonprofits noted a slight decrease in activity. A Minnesota energy management consultant noted an increase in orders.

Manufacturing

Manufacturing output was up since the last report. A June survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased significantly in Minnesota and the Dakotas. A construction equipment manufacturer in North Dakota was increasing production. A South Dakota wind energy equipment producer increased production significantly due to increased demand.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Mid-July oil exploration increased from early June. Wind energy projects have come online, and more are planned in the western portion of the District. In Montana, a company applied for permits to develop an underground gold mine. A Montana copper mine was "doing excellent," according to an official, due to strong production and prices. However, iron ore production in Minnesota decreased in June compared with May because of maintenance at one of the mines.

Agriculture

Agricultural activity increased. The U.S. Department of Agriculture raised the price estimates for corn, soybeans and wheat. The vast majority of the District corn and soybean crops were rated as either good or excellent. Meanwhile, drought conditions eased across most of the District, but some areas were experiencing excess moisture.

Employment, Wages and Prices

Labor markets continued to strengthen somewhat. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 28 percent expect to increase staffing levels at their companies over the next six months, while 9 percent expect to decrease staff. In last year's survey, 19 percent expected to boost hiring, while 12 percent anticipated decreases. A recent survey of businesses conducted by the North Dakota Chamber of Commerce showed that 39 percent expect to increase staffing in the next six months; the majority of respondents expect to keep payrolls level.

Increases in temporary employment were noted. A representative of an employment services firm in Minneapolis-St. Paul reported that demand for temporary workers has continued to grow during the past two months. In the Dakotas, demand for seasonal construction employment was up; however, temporary construction and manufacturing employment was slow in the Duluth, Minn., area, according to bank directors. In northwestern Montana, two employment offices reported that postings for temporary and part-time listings were up; however, overall job orders by employers were down 50 percent compared with a year ago. Signs of continued weakness also include an announcement that a bank will lay off about 80 employees in Minnesota.

Wages were generally level with a year earlier. Over 70 percent of respondents to the St. Cloud survey expected no changes in employee compensation over the next six months. A nurses union and 14 hospitals in the Minneapolis-St. Paul area agreed on a contract that averted an open-ended strike; pension and health benefits were not changed.

Price increases remained restrained. Minnesota gasoline prices at the beginning of July were about the same as prices a month earlier. Bank directors noted that prices have remained generally level for area businesses with some exceptions. Significant increases included copper and brass products in electrical wiring, steel fencing materials and unemployment taxes. Scrap metal prices were above year-ago levels, but dropped during the past month.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy generally held steady in June and early July, despite weak real estate conditions. Consumer spending remained higher than year-ago levels and was expected to rise over the next three months. Manufacturing activity expanded slightly, but at a slower pace than in previous months. Transportation and high-tech firms reported increased activity. As expected, residential real estate activity contracted sharply in response to the expiration of tax credits. Commercial real estate conditions weakened, and activity was expected to slow in the months ahead. Bankers reported slightly increased loan demand and did not anticipate a change in loan quality over the next six months. Energy production expanded, raising expectations of increased employment and capital spending over the coming months. Agriculture conditions remained positive, and farmland values stayed above year-ago levels. Wage and retail price pressures remained subdued.

Consumer Spending. Consumer spending remained higher than a year ago, and contacts anticipated gains over the next three months. District retailers reported that sales in June and July were flat relative to the previous survey period but remained above year-ago levels. Retailers expected sales to rise over the next three months and a continued downward trend in prices. Auto sales increased in response to higher discounts, and dealers expected strong demand to persist in the coming months. Auto dealers reported continued declines in inventories. Restaurant sales were flat compared to the previous survey, but the average check amount fell. Tourism activity rose over the past month and was expected to remain strong during the summer months. Hotel occupancy rates increased more than anticipated, but contacts expected to give up some of these gains in the coming months.

Manufacturing and Other Business Activity. Growth in manufacturing activity eased slightly in June, while transportation and high-tech firms reported solid growth in sales and activity. Production at manufacturing firms continued to rise, but the pace of growth slowed for the second consecutive month. The volume of new orders, shipments, and finished goods inventories were flat compared to May, but the backlog of orders at manufacturing firms declined. Manufacturing activity continued to improve compared to a year ago, and firms remained optimistic about production and employment over the next six months. Capital spending continued to decrease compared to year-ago levels, and firms expected slightly less investment over the next six months. Transportation firms saw an increase in activity when compared to both the previous period and a year ago. Some firms continued to have difficulty finding qualified drivers. Most transportation firms planned to increase their capital spending the next six to twelve months. The high-tech industry reported an increase in activity over the previous survey period and expected strong growth during the next three months.

Real Estate and Construction. Residential and commercial real estate activity declined since the last survey period. With the expiration of tax credits, residential sales dropped sharply resulting in higher inventories of unsold homes. Residential real estate contacts continued to report that lower-priced homes sold better than higher-priced homes. Over the next three months, real estate agents anticipated slower sales. However, builders reported higher traffic from potential buyers and expected starts to rise slightly the next three months. Despite flat construction supply sales since the previous survey, construction supply contacts also expected sales to increase during the coming months. Refinancing activity increased amid declining interest rates. Commercial real estate contacts reported that conditions weakened after improving slightly in the previous survey, including higher vacancy rates and declining sales, construction, prices and rents. Commercial real estate conditions were expected to worsen over the next three months. Developers reported increasing difficulty accessing credit.

Banking. Bankers reported slightly increased loan demand, stable deposits, and an unchanged outlook for loan quality. Overall, loan demand edged up after holding steady in the previous survey. Demand for consumer installment loans increased. However, demand fell for commercial real estate loans and was little changed for commercial and industrial loans and residential real estate loans. Credit standards on residential real estate loans and consumer installment loans were unchanged, but a few banks tightened standards on their commercial and industrial loans and commercial real estate loans. About the same number of bankers reported an improvement in loan quality, compared to one year ago, as reported a deterioration. Also, for the second straight survey, respondents expected no change in loan quality over the next six months. Deposits were unchanged, consistent with their overall stability since late last year.

Energy. Energy production continued to expand, and firms expected activity to grow further in the coming months. Growth in the number of active drilling rigs slowed relative to strong gains earlier in the year. Crude oil prices were expected to remain unchanged due to a steadying of supply and demand conditions. Firms reported that they planned to increase the workforce the next three months, but some contacts noted difficulty finding qualified workers. However, they did not anticipate having to raise wages in order to attract workers. Capital spending was expected to increase over the next six to twelve months, and several firms mentioned the potential of developing the Niobrara oil shale in northeastern Colorado and eastern Wyoming.

Agriculture. Agricultural conditions remained positive since the last survey period. Ample moisture reduced the need for irrigation, and the corn and soybean crops were reported in generally good or better condition. Wet weather, however, delayed the winter wheat harvest. While many areas expected an abundant wheat crop, there were some reports of hail damage and poor quality yields, especially in Oklahoma. Corn and soybean prices held steady while wheat prices rallied slightly, mainly due to expectations of a smaller global wheat harvest. Livestock operations continued to be profitable with recovering demand for beef and pork. Farmland values remained above year-ago levels. Farm loan demand held steady, and ample funds were available at low interest rates for qualified borrowers.

Wages and Prices. Wage and retail price pressures remained low in June and July. District firms reported a slight uptick in the shortage of qualified labor, but wage pressures stayed at low levels. Retail prices continued to decline compared to both the last survey period and a year ago. Builders and construction supply firms expected prices to remain at current levels over the next three months. Raw material prices at District manufacturers grew during the survey period, but the pace of growth slowed considerably. Meanwhile, transportation companies continued to experience higher input prices. Overall, District contacts planned to keep prices at their current level the next three months.

ELEVENTH DISTRICT—DALLAS

Overview The Eleventh District economy expanded at a moderate pace over the past six weeks, although business outlooks were slightly more cautious. Respondents in most sectors said activity improved or held steady since the last report. The notable exception came from homebuilders and construction-related manufactures who said demand dropped off following the expiration of the first-time homebuyer tax credit. The majority of Eleventh District respondents expect economic conditions to remain positive, but many expressed uncertainty about the pace of future growth. Numerous contacts said uncertainty regarding fiscal and financial reforms was restraining business activity.

Prices Selling prices held steady for most responding firms. There were scattered reports that rising input costs were squeezing margins. Notably, paper producers said linerboard prices continued to rise, and high-tech firms said supply-chain problems had increased costs for producers. Some transportation service firms had raised fees but reduced fuel surcharges. Lumber producers said prices had come down since the spring run-up, and staffing firms continued to note pressure to reduce fees. Contacts in residential construction said industry consolidation has led to fewer concessions in pricing.

Crude oil prices traded in a range of about $70 to $75 per barrel from late May through early July, down from the previous report. On-highway prices of both gasoline and diesel fell about 5 percent during the reporting period. Natural gas prices mostly ranged between $4.50 and $5.00 per Mcf—moving up briefly over $5.00 per Mcf in June. The increase in petrochemical prices seen earlier in the year due to capacity outages has reversed course.

Labor Market The majority of respondents noted steady employment levels, although there were scattered reports of hiring activity. Staffing firms said demand continued to increase for their services, and some contacts in residential construction, construction-related manufacturing, aircraft manufacturing and auto sales had added workers. On a less positive note, contacts in the energy industry said the moratorium on deepwater drilling resulted in significant regional layoffs, although energy service companies were shifting Gulf Coast workers to land or shallow water projects when possible. Wage pressures were mostly nonexistent, with the exception of the airline industry. Although the overall labor market remains slack one transportation service provider was offering signing bonuses to truck operators, and a few firms noted difficulty finding skilled workers.

Manufacturing Most construction-related manufacturers reported a slowdown in activity, and outlooks were less optimistic than in the previous report. Producers that sell to the homebuilding industry said orders dropped off more than expected following the expiration of the first-time homebuyer tax credit. Contacts also reported declines in private nonresidential construction. Fabricated metals producers said sales growth flattened since the last report, while primary metals firms said activity picked up slightly, but was bouncing along the bottom.

Production and new orders for high-tech manufacturing continue to grow at a strong pace. Capital expenditures that were postponed during the recession are driving purchasing, according to respondents. Inventories were in good shape, having built up from extremely low levels early in the year. Respondents expect demand to continue to grow at a strong pace for the next three to six months, but there is increased uncertainty about the outlook for 2011.

Manufacturers of aircraft and parts said sales had improved, with orders coming mostly from the commercial and general aviation industries. Budget cutbacks have curbed governmental and military sales. An aircraft repair contact said growth in demand had softened slightly, and the backlog of orders had dropped. Orders for emergency vehicles remained flat and backlogs edged down, but not as much as contacts had expected given budget strains among municipalities.

Reports on demand for paper products were mixed, but most contacts said sales are about even with or slightly higher than a year ago. Food producers noted increased demand, and outlooks were positive.

Producers of petrochemicals used in housing and commercial construction (PVC) said orders fell since the last report, and expectations are for no near-term improvement. Other than PVC, there were no signs of weakness in chemicals. Demand was strong for petrochemicals used in manufacturing, pulp and paper and alumina. In addition, contacts said domestic demand for ethylene/polyethylene products remained solid, and that export demand has returned slowly as capacity was restored and prices declined. Refiners said gasoline demand was steady in recent weeks while diesel demand has improved. Refinery utilization rates improved to near 90 percent, as refiner margins remain relatively strong.

Retail Reports from retail contacts point to solid growth. Department store sales were slightly stronger than anticipated, but the pace is expected to moderate in the second half. Consumers continue to deleverage and correspondingly remain price sensitive. Sales growth in the Eleventh District tracked slightly below the nation. Expectations are for continued gradual improvement through year-end.

Automobile sales were unchanged over the reporting period, and contacts said inventories were lean. The outlook is cautiously optimistic, with sales expected to rise slowly.

Services Most staffing firms report strong demand across a wide range of industries. The majority of placement activity continues to be conversions of temporary workers to hires. Direct placement remains reduced as businesses are hesitant to add to permanent payrolls. While near-term outlooks remain optimistic, respondents are still cautious about the longer term. Demand for accounting services was sluggish, but above year-ago levels. Tax-related services slowed seasonally, but transactional and consulting activity picked up slightly. Demand for legal services held steady at low levels, but most contacts were slightly more optimistic in their outlooks. Accounting and legal contacts said uncertainty about fiscal and financial reform was holding back business activity.

Demand for transportation services strengthened. Several contacts said cargo volumes were up considerably, with the increases being broad-based across industry sectors. Railroad respondents noted cargo volumes rose strongly across the board, with a particularly large increase in metals that was likely due to an improved auto industry and stronger demand for home appliances. Shipping firms said retail trade was boosting volumes for small package shipping. Airline traffic was down slightly since the last report, but up strongly compared to a year ago. Outlooks for the transportation services industry were generally positive but cautious.

Construction and Real Estate Builders of low-to-moderate priced homes reported a significant drop off in housing sales in May and June following the expiration of the first time-homebuyer tax credit. The pace of decline slowed in early July, and some contacts are hopeful the tax-credit “hangover” may be over. New home starts overall are expected to come down in the second half of the year, and outlooks for the homebuilding industry remain guarded. Existing home sales softened slightly in recent weeks, according to contacts, but activity for the year is up from the same period in 2009. Apartment demand continues to improve.

Commercial real estate markets remain weak. While a few lease deals have taken place, demand for space overall remains subdued and rents are edging down. As such, nonresidential construction activity continues to decline, and there were a few reports of developers going out of business. On a positive note, contacts said improvement in debt markets had spurred some property sales, and prices were up from the trough. One contact noted an increase in lender sales as banks work through nonperforming loans.

Financial Services Loan demand remained soft with weakness across all categories. Nonperforming loans have stabilized and are not expected to worsen, although contacts said it will be a while before they come down noticeably. Deposits were mostly steady, but responding institutions said fewer loans pushed down the loan-to-deposit ratio. An over-riding theme among financial industry respondents is uncertainty over fiscal and financial reform legislation that has created a wait-and-see mentality. The uncertainty is delaying transactions, depressing loan activity and causing some institutions to look for alternative ways to grow loan portfolios and earnings.

Energy The U.S. and District rig counts increased during the reporting period, despite a drop of 39 rigs in the Gulf of Mexico. As the share of oil-directed drilling continues to rise, natural-gas directed drilling was surprisingly steady despite high inventories and low prices. Some contacts noted that shale activity is stronger than prices justify due to urgency to secure leases in new basins and an influx of foreign capital attracted by new shale technology.

Agriculture Tropical storms brought widespread rains to Texas, particularly benefitting parts of the state that had been getting dry. Favorable crop conditions and robust forage production on pastures have increased optimism among agricultural producers. Cattle prices have declined, though ranchers still anticipate strong prices compared to last year. The recent rainfall will boost yields for Texas cotton, potentially pushing down prices.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District appeared to pick up slightly during the reporting period of June through mid-July. Upward price pressures remained quite modest, and upward wage pressures were largely absent. Sales of retail items and services firmed a bit further. Reports from District manufacturers indicated continued expansion, although excess capacity remained high in some sectors. Sales were strong for agricultural producers, and demand for energy resources strengthened. Activity in housing markets was mixed but appeared to decline on net, while demand for commercial real estate was largely unchanged at very low levels. Contacts from financial institutions reported largely stable lending activity and credit quality.

Wages and Prices

Upward price pressures remained very modest on net during the reporting period. While energy prices edged up and prices also rose modestly for selected industrial commodities such as steel and copper, final prices for most retail items and services continued to be held down by weak demand and excess capacity. Contacts in a few industries pointed to recent increases in shipping costs that they anticipate will be passed on to final prices later this year or in 2011.

Contacts in most sectors characterized wages as largely flat, although some pointed to significant increases in the costs of employee benefits, especially for health insurance. Upward wage pressures were negligible in most sectors and regions, held down by continued high levels of unemployment and limited hiring. Reports throughout the District indicated that most businesses expect to remain cautious in hiring for the foreseeable future. Contacts noted that their reliance on temporary workers over permanent hires will continue above historical norms.

Retail Trade and Services

Sales of retail items were mixed but showed further modest improvement on net. While consumers remained focused on necessities and lower-priced options, reports indicated expanding consumer appetite for discretionary spending. Discount retail chains and traditional department stores both reported higher levels of sales, and a few contacts noted declines in promotional activity. By contrast, sales were characterized as largely flat for grocers, as well as furniture and household appliance retailers. Sales of new domestic and imported automobiles weakened slightly during the reporting period, although contacts noted that activity rebounded somewhat in recent weeks. Demand for gasoline strengthened but remained below historical averages for the season.

Demand for services remained somewhat weak but exhibited further signs of improvement on balance. Contacts in the restaurant and food services industry reported modest increases in demand. For professional and media services providers, sales were largely stable at low levels. Contacts noted that potential clients increased their requests for bids, but the added interest produced only limited numbers of new commitments. Demand for hospital services was relatively flat, especially for discretionary services. Energy utilities reported further increases in demand from selected industries, such as technology, metal, and wood products. Conditions in the District’s travel and tourism sector continued to improve. Business travel and convention activity picked up further, and visitor volumes and hotel occupancy rates rose in several of the District’s major markets, particularly Hawaii.

Manufacturing

District manufacturing activity was mixed but appeared to strengthen a bit further on net during the reporting period of June through mid-July. Manufacturers of semiconductors and other information technology products reported further demand growth, with balanced inventories and continued strength in new orders. Production rates and deliveries picked up modestly for makers of commercial aircraft and parts. However, new orders remained limited and contacts expressed uncertainty about the strength of the airline industry recovery and prospects for future orders. While capacity utilization remained at low levels for companies in the metal fabrication sector, further demand improvements were noted, especially for items used to maintain or upgrade existing capital equipment. By contrast, apparel makers characterized conditions as “flat.” Despite improved demand, high inventory levels for gasoline and distillates prompted refineries to slow production.

Agriculture and Resource-related Industries

Demand was strong for agricultural products and improved for natural resources used for energy production. Orders and final sales remained robust for assorted crop and livestock products. Growing and grazing conditions have been favorable in recent months, and contacts noted that input costs have been largely stable. Strong global demand supported an increase in oil extraction activity during the reporting period, and extraction activity for natural gas continued at a solid pace.

Real Estate and Construction

Demand for housing in the District appeared to deteriorate somewhat from the previous period, while demand for commercial real estate was largely unchanged at very low levels. The pace of home sales remained mixed across areas but appeared to decline on net, even as home prices edged up further in some parts of the District. Several contacts noted again that limited availability of nonconforming “jumbo” loans is holding down sales of higher-priced homes in some areas. Conditions in commercial real estate markets remained depressed, as vacancy rates for office and industrial space stayed at very elevated levels in many parts of the District. One California contact noted that although only a few large commercial properties have sold in recent months, the prices received were surprisingly high.

Financial Institutions

District banking contacts reported that loan demand was largely stable compared with the prior reporting period. Demand for commercial and industrial loans continued to be restrained by business uncertainty about the economic environment. For most contacts, their current assessment of growth prospects for their firm and industry are the same or weaker than was their assessment in early 2010, with corresponding restraint evident in their planned capital expenditures. Demand for consumer loans was characterized as largely unchanged at low levels. Lending standards remained relatively restrictive for business and consumer lending, although reports pointed to signs of stabilization in overall credit quality.