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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

August 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

AUGUST 2010

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Summary*

Reports from the twelve Federal Reserve Districts suggested continued growth in national economic activity during the reporting period of mid-July through the end of August, but with widespread signs of a deceleration compared with preceding periods. Economic growth at a modest pace was the most common characterization of overall conditions, as provided by the five western Districts of St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. The reports from Boston and Cleveland also pointed to positive developments or net improvements compared with the previous reporting period. However, the remaining Districts of New York, Philadelphia, Richmond, Atlanta, and Chicago all highlighted mixed conditions or deceleration in overall economic activity.

Consumer spending appeared to increase on balance despite continued consumer caution that limited nonessential purchases, while activity in the travel and tourism sector picked up relative to seasonal norms. Activity was largely stable or up slightly for professional and other nonfinancial services. Reports on manufacturing activity pointed to further expansion, although the pace of growth eased according to several Districts. Agricultural producers and extractors of natural resources reported continued gains in demand and sales. Home sales slowed further following an initial drop after the expiration of the homebuyer tax credit at the end of June, prompting a slowdown in construction activity as well. Demand for commercial real estate remained quite weak but showed signs of stabilization in some areas. Reports from financial institutions pointed to generally stable or slightly lower loan demand and noted some modest improvements in credit quality.

Upward price pressures remained quite limited for most categories of final goods and services, despite higher prices for selected commodities such as grains and some industrial materials. Wage pressures also were limited, although a few Districts noted increased upward pressures in a narrow set of sectors experiencing a mismatch between job requirements and applicant skills.

Consumer Spending and Tourism

Reports on consumer spending were mixed but suggested a slight increase on balance. Most Districts reported that non-automotive retail sales rose compared with the previous reporting period or

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* Prepared at the Federal Reserve Bank of San Francisco based on information collected on or before August 30, 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.

were above their levels from 12 months earlier. By contrast, Atlanta reported a decline in the level of sales, and Richmond noted that sales "sputtered" in August, while New York and Dallas reported that growth in retail sales slowed. Several Districts noted an emphasis on necessities and lower-priced goods. Boston reported that back-to-school purchases were focused on immediate needs; in Cleveland, consumers focused on "value-priced seasonal items;" and in St. Louis, Kansas City, and San Francisco, sales were relatively stronger for lower-priced items. Spending on big-ticket items such as expensive consumer electronics was weak according to Philadelphia, Richmond, and Dallas. Most Districts also reported that sales of new automobiles and light trucks were largely stable or up slightly during the reporting period, and contacts were optimistic for stable sales or slight growth over the balance of the year. A few reports indicated that inventories for various goods remained near desired levels despite slower sales in some cases, as retailers have been practicing very tight inventory management.

Reports from most Districts pointed to consistent gains in travel and tourist activity, with pickups evident in the business and leisure segments alike. New York reported strong tourist activity that kept hotel occupancy rates high in Manhattan despite an increase in hotel capacity this year, while Boston noted that travel and tourism activity was "stronger than expected." Several other Districts also reported rising visitor counts and hotel occupancies, notably for popular tourist destinations in the Richmond, Minneapolis, and San Francisco Districts, although several pointed to continued softness in per-visitor spending. Atlanta noted reduced tourist activity in areas of the Gulf Coast affected by the oil spill but improvements over last year in unaffected areas. Airline traffic was stable to up, with Boston pointing to an expanded number of low-fare carriers.

Nonfinancial Services

Activity was largely stable or up slightly for professional and other nonfinancial services. Providers of information technology (IT) services such as computer software saw substantial revenue and sales gains in the Boston and Kansas City Districts, with increased demand for IT labor reported in Chicago as well. Demand for professional services such as accounting held largely steady, with Minneapolis and Dallas noting increases for selected types of consulting and legal services. Conditions were mixed for providers of real estate services, as heightened appraisal activity for refinancing purposes was offset by depressed home sales and consequent limited needs for agents and brokers. Demand for temporary staffing services remained on an upward trend, with increases noted by Boston, Philadelphia, Richmond, and Minneapolis, although Chicago pointed to a slight softening during the reporting period. Reports from the health-care sector were mixed: Boston, Cleveland, and Chicago reported ongoing increases in demand for health-care workers, while Philadelphia indicated a flattening in demand for health-care services and San Francisco noted a decline in the frequency of elective procedures and routine tests. Demand for shipping and transportation services generally expanded, although according to Cleveland the pace of growth slowed and contacts there expect little change from existing volumes in the near term.

Manufacturing

Manufacturing activity expanded further on balance, although the pace of growth appeared to be slower than earlier in the year. Most Districts reported further gains in production activity and sales across a broad spectrum of manufacturing industries. However, New York, Richmond, Atlanta, and Chicago noted that the overall pace of growth slowed, while Philadelphia, Cleveland, and Kansas City reported that demand softened compared with the previous reporting period. Recent weakness was most notable for construction-related products, according to reports from Cleveland, Richmond, Chicago, Dallas, and San Francisco. By contrast, orders and activity edged up for makers of steel and other metals in Cleveland, Chicago, and St. Louis, propelled largely by demand from the transportation equipment industry. Activity among automobile makers and parts suppliers rose further in Richmond and held steady in Chicago, although it dropped temporarily in Cleveland as a result of factory retooling. Manufacturing activity for commercial aircraft was steady in the Dallas and San Francisco Districts, although a contact in Boston reported that the industry's recovery has been slow. In the Boston and San Francisco Districts, makers of semiconductors and other high-tech products saw further sales gains, while Dallas noted that demand held largely steady at existing high levels. Among nondurable products, food processing stepped up in Philadelphia and San Francisco. Demand conditions for paper products were mixed, with increased sales and expansion plans noted in Minneapolis and St. Louis but flat to declining sales identified in Dallas. Export demand was an important contributor to healthy conditions in the manufacturing sector according to Boston and Chicago, notably for heavy machinery and autos.

Reports on capacity utilization were mixed. Manufacturers of high-tech products have been operating near maximum capacity of late, although this partly reflects a substantial decline in industry-wide capacity over the past three years, as noted by Dallas. More generally, the majority of Cleveland's manufacturing contacts reported that capacity utilization remained below pre-recession levels. Capital spending plans for manufacturers and firms in other industries generally indicate little change or modest increases in coming months, based on reports from the Boston, Philadelphia, Cleveland, Chicago, Kansas City, and San Francisco Districts.

Real Estate and Construction

Activity in residential real estate markets declined further. Most District reports highlighted evidence of very low or declining home sales, which many attributed to a sustained lull following the expiration of the homebuyer tax credit at the end of June. Some Districts, such as New York and Dallas, noted that the expiration of the tax credit created especially weak conditions for lower-priced homes, while others, including Philadelphia and Kansas City, identified the high end of the market as the primary weak spot. Residential construction activity declined in most areas in response to weak demand. Cleveland, St. Louis, and Minneapolis were the exceptions to this pattern of declining activity, with reports from their contacts indicating that residential construction activity improved of late. Inventories of available homes rose in general, although the availability of new homes in Atlanta was held down by the slow pace of new home construction. Price movements were mixed, with most Districts reporting stability or declines of late; a few, notably Boston, Minneapolis, and San Francisco, noted that prices rose in some areas compared with the previous reporting period or last year. Richmond reported that recent home sales were "dominated by foreclosure and short sales," and Chicago reported an increase in the supply of foreclosed homes for sale.

Demand for commercial, industrial, and retail space generally remained depressed. Vacancy rates stayed at elevated levels in general and rose further in a few Districts, placing substantial downward pressure on rents. Asking rents continued to decline in parts of the New York and Kansas City Districts. High vacancies and negative absorption held nonresidential construction activity to the bare minimum in most Districts. A few Districts reported exceptions to weak conditions. Cleveland noted improved construction activity for industrial use and educational infrastructure; this raised overall activity above year-earlier levels and prompted modest hiring by builders. Chicago reported an increase in inquiries for commercial redevelopment and rising construction activity for public projects, but Richmond reported that state and local governments cut back on construction projects.

Banking and Finance

Lending activity was stable to down slightly on net. Most Districts reported little or no change from existing low levels of commercial and industrial lending, as businesses remained quite cautious about expansion plans. Dallas and San Francisco reported that overall lending trailed off, with declines driven by weak business lending stemming in large part from uncertainty about future economic conditions. Consumer lending remained sluggish in general, with contacts in Philadelphia and Richmond emphasizing the role of households' ongoing efforts to reduce their debt burdens. A recent flurry of refinancing activity spurred increased demand for residential mortgages in the New York, Cleveland, Chicago, and Kansas City Districts, but new-purchase mortgage originations remained quite sluggish in general. A few Districts pointed to increases in nonbank financing activity, including rising availability of trade credit in Atlanta and further increases in venture capital funding in San Francisco.

Lending standards were largely unchanged. However, New York reported tighter standards in all lending categories, particularly for commercial mortgages, and Kansas City reported that a few banks tightened standards for commercial real estate loans. By contrast, reports from Chicago indicated that credit availability and terms loosened for business and consumer loans. Credit quality also changed little on balance. Philadelphia, Chicago, and San Francisco noted modest improvements in overall credit quality, while New York reported rising delinquencies for all categories except consumer loans and Atlanta reported an increase in business and household bankruptcies.

Agriculture and Natural Resources

Demand for agricultural products continued to expand, and producers benefited from relatively tranquil supply conditions. Crops and livestock generally sold well in Districts with extensive agricultural sectors, including Chicago, Minneapolis, Kansas City, Dallas, and San Francisco. Domestic growers have seen increased demand for grains and other commodities as a result of shortages overseas. Growing conditions were supportive of relatively high yields in most areas, although volatile weather conditions held corn and soybean yields below the record levels expected earlier in the season in the Chicago District. Low moisture during parts of the growing season also undermined yields for selected crops in the Richmond and St. Louis Districts, most notably for corn.

Demand and extraction activity increased for producers of natural resource products, including oil and other items used for energy output. Rising global demand spurred expanded extraction activity for oil, natural gas, and assorted minerals, as reported by Cleveland, Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco. In the Atlanta District, oil production was barely affected by the Gulf oil spill, although contacts noted lingering concerns about the longer-term business impacts of the deepwater drilling moratorium and higher liability insurance costs for oil extraction companies.

Prices and Wages

Upward price pressures were very limited during the reporting period, with the exception of selected food commodities and industrial materials. Philadelphia reported increases in the prices of primary metals and wood products, Minneapolis pointed to higher prices for copper and lead, and Dallas and San Francisco reported higher prices for grain and selected other agricultural commodities. Atlanta reported that commodity and transportation-related prices rose, but their contacts indicated plans to absorb the increases into their margins rather than passing them on to consumers. Chicago, Kansas City, and San Francisco also noted limited pass-through of cost pressures to downstream prices.

Wage pressures remained modest overall. Of Districts commenting on wages, most identified little or no upward pressures or increases. Dallas reported that wage pressures were “generally nonexistent,” with the exceptions of some airline and temporary workers. Hiring of permanent employees was held down in part by employers’ reliance on temporary and contract workers, as reported by Philadelphia and Atlanta, although Boston noted that conversions from temporary to permanent staff picked up. Contacts in the Boston, Chicago, and Kansas City Districts noted skill mismatches between available jobs and the workers applying for them, which caused a slight uptick in wage pressures for selected jobs in a narrow set of industries. More generally, however, the reports suggested ample supply of qualified applicants for open positions.

FIRST DISTRICT – BOSTON

Recent business developments are positive on average across the First District, but performance continues to vary between and within sectors. Reports are mostly upbeat among contacts in software and IT. Manufacturing firms also had mostly positive news, with recent sales at least steady for most and very strong in some cases. Among staffing services, positive developments outnumber negative ones. Retailers give mixed results, including some significant sales declines. In the commercial real estate market, leasing activity is flat to modest and downward pressure on rents remains high in Boston. Residential real estate sales are very weak following the expiration of the home-buyer tax credit but selling prices are up slightly in many parts of the region. Concerning the labor market, some firms are hiring modestly or plan to hire soon, while others are still reluctant to hire. The number of job-seekers is perceived as high by some, while others are having difficulty filling vacancies requiring specific skills. Some software and IT firms are giving significant pay raises and staffing firms also note an increased willingness to pay higher wages among some firms. Constraints in ocean-freight capacity are a concern among manufacturers and retailers, as are increases in commodity prices. The outlook varies widely across sectors, from largely positive in manufacturing and software to cautious in retail and tourism and mixed among commercial real estate professionals.

Retail and Tourism

First District retailers report mixed sales results for July and early August. Year-over-year same-store sales range from decreases of 10 percent to increases in the low single-digits, and one contact quips that "flat is the new up." Back-to-school sales were modest, with the consumer focused on buying for immediate needs only. Several retailers report increases in foot traffic but also smaller average ticket size. Inventory levels are generally in line with expectations. However, decreased ocean-freight capacity has firms concerned about their ability to restock in a cost-effective and timely manner, forcing additional advanced planning. Capital spending is mixed and headcount is stable. Retailers note significant cost increases for food commodities, particularly dairy. Outlooks are cautious or cautiously optimistic.

Travel and tourism are stronger than expected. One contact attributes the trend to generous travel incentives, supported by an increase in the number of low-fare air carriers operating out of Boston. Overseas arrivals are much stronger than forecast. Business travel is also more robust than anticipated, with travel managers using the downturn to leverage favorable rates. The respondent reports modest hiring in the visitor industry, although the outlook remains cautious.

Manufacturing and Related Services

Nearly all manufacturing firms surveyed report favorable results for the second quarter. Demand is particularly strong at semiconductor and pharmaceutical firms. One respondent from a long-standing business describes the second quarter as their best ever. In contrast, a parts supplier for the aircraft industry says that demand has been slow to recover from the recession. Sales held steady in recent weeks among many contacted manufacturers; multiple respondents attribute recent demand to booming business in northern and western Europe. The same firms describe domestic sales as flat in comparison. In addition, several diversified manufacturers and one large domestic industrial manufacturer all note that sales leveled off in recent weeks relative to the first half of the year.

Inventory levels at many contacted firms are reportedly low in comparison with pre-recession levels. One firm remarks that, even if demand were to slow, it would not be as damaging as in 2008 because most goods are being produced only as orders arrive. Low inventory levels are also attributed to supply constraints. A number of firms report that suppliers are producing at capacity due to cuts in capacity in 2008 and 2009. In addition, inputs for one firm have been slow to arrive because of cutbacks in global ocean-freight capacity. These constraints have led at least one contact to stockpile intermediate inputs as a hedge. Despite supply constraints, almost all respondents report that selling prices remain relatively steady, although some note continued fluctuations in raw materials prices. Some firms passed modest price increases on to their customers.

Hiring remains limited among the manufacturing firms surveyed. The companies that cut workforces substantially during the recession are slowly re-hiring workers, although employment at most of these firms remains below 2008 levels. Some firms expect hiring to pick up next year, although one firm wants to see sustained growth before making major hiring plans. A few semiconductor and pharmaceutical firms continue to have difficulties filling skilled positions. Capital spending plans at most manufacturers remain moderate, as some firm's upgraded IT infrastructure and other equipment. A number of firms characterize the investment environment as favorable but had not yet found good opportunities.

Many firms remain optimistic about growth going forward. One contact notes that demand is much stronger than what news reports suggest. By contrast, a few firms are not as optimistic as they were three months ago. Firms again mention being concerned about the uncertainty of fiscal policy going forward.

Software and Information Technology Services

Software and information technology contacts in the First District report that business conditions continued to improve. Year-over-year revenue increases ranged from mid-single digits to 15 percent in the most recent quarter. Half of contacted firms increased their headcounts and another was "on the cusp of hiring." One contact, however, reports a modest reduction in headcount due to restructuring. Wages are steady or up notably, with some merit increases in the range of 3 to 5 percent. Prices held steady and one contact observes less discounting pressure relative to a year ago. Half of contacted firms say that they have increased capital and technology spending relative to last year in order to expand or upgrade equipment; remaining contacts held capital and technology expenditures steady. The outlook among contacts is moderately positive. Most expect a continuation or slight acceleration of current growth rates.

Staffing Services

The majority of First District staffing contacts report that business continues to strengthen, although a few experienced stagnant or inconsistent activity over the past three months. Most contacts describe business since the end of Q2 as "fair to good" or "generally positive," with revenue growth in the single digits. Year-over-year revenue changes vary widely, from down slightly to up by over 40 percent. Labor demand increased, particularly in the light industrial, information technology, and health care sectors; however, the consensus among contacts is that jobs are hard to fill. A few contacts report that the supply of job seekers is plentiful but that clients are reluctant to hire; others said that recruiting workers with specific skills has become more difficult. Bill rates and pay rates are steady or up slightly, as many clients show increased willingness to pay higher rates for quality workers. The number of conversions from temporary to permanent staff increased and permanent placements picked up. Several contacts express concern over rising costs, particularly workers' compensation, health insurance, and state unemployment insurance taxes. Despite these concerns, contacts predict continued growth in the coming quarter.

Commercial Real Estate

Contacts in Hartford, Boston, and Portland describe commercial leasing activity as flat in recent weeks, while a Providence contact describes activity as healthy, notwithstanding some seasonal slowing in recent weeks. Lease renewals and relocations resulted in net negative absorption across the region as businesses continue to consolidate operations. Investors continue to bid aggressively for low-risk properties, while demanding steep discounts on distressed assets. Contacts in Hartford and Portland both are increasingly pessimistic concerning the outlook based on weak forecasts for job growth, while a Providence contact sees potential for significant positive absorption in the downtown office market based on deals currently under discussion. Also on the bright side, loans are flowing to new condominium conversions in core Boston neighborhoods based on increasing buyer demand.

Residential Real Estate

New England contacts report large year-over-year declines in home sales. In July, the greater Boston area reportedly had the fewest sales in over a decade while other parts of the region also experienced very weak sales. Nonetheless, contacts observe relative calm among realtors regarding weak sales activity. They understand that the home-buyer tax credit moved sales forward in time, leaving fewer buyers in the market following the expiration of the incentive. Some contacts are optimistic that a recovering economy and low interest rates on mortgages, particularly for buyers with good credit, will draw buyers into the market in the near future.

The number of homes and condos on the market increased around the District. A couple of respondents in Massachusetts expect the increased inventory, and resulting greater choice, to lure more buyers to the market; conversely, a New Hampshire contact is concerned about the excess supply of homes. The median price of homes and condos moved up in most parts in New England. Such moves are attributed to a greater fraction of sales coming from higher-end properties rather than to a general increase in prices. The only exception to this trend is New Hampshire, where prices fell 1 percent year-over-year. Contacts expect prices to remain stable in the coming months, although they anticipate slower sales for the rest of year due to the expiration of the tax credit and perceived lack of job security.

SECOND DISTRICT--NEW YORK

On balance, the Second District's economy showed signs of decelerating since the last report. Input prices have continued to rise moderately, while consumer prices appear to be steady to down slightly. General merchandise retailers report that sales have slowed since the last report, though auto dealers categorize sales as fairly good. Commercial real estate markets have generally been steady to softer since the last report. Residential real estate sales markets weakened to very low levels, though New York City's rental market continued to improve modestly. Manufacturing-sector contacts report some further deceleration in business activity. Tourism activity in New York City has been steady at a strong level since the last report, buoyed by rising business travel. Overall, the labor market, though still slack, has shown further modest signs of improvement. Finally, bankers report steady to weaker loan demand, steady to higher delinquency rates and some tightening in credit standards, but also some narrowing in loan spreads.

Consumer Spending

Non-auto retailers report that sales have slowed across the District since the last report, with comparable-store sales running just 2-3 percent ahead of a year earlier, on average, in July and up just 1-2 percent in the first few weeks of August. The slowing has been particularly pronounced at New York City stores. Two major shopping malls in western New York State also report that sales weakened in July through early August, and they report substantial discounting—especially at clothing retailers. Despite this recent slowing, most contacts continue to report that inventories generally remain at favorable levels. Contacts report steady to modestly declining selling prices and acquisition costs. One contact notes that steep discounting has been necessary to move merchandise.

Auto dealers in the Rochester area report that sales of new autos were down roughly 10 percent from a year ago in July and down 15 to 20 percent in the first half of August, while Buffalo-area dealers report a 5 percent year-over-year increase in July and project a moderate decline in August. Still, contacts in both areas describe the current sales pace as fairly good, with the 12-month comparisons depressed by last summer's "Cash for clunkers" program. Dealers report that both retail and floor-plan credit conditions have continued to improve.

Tourism activity in New York City has been steady at a strong level since the last report. Manhattan hotels report that occupancy rates remained close to 90 percent in July and August, even as the number of hotel rooms has risen by more than 5 percent over the past year. Moreover, room rates continued to run 10-15 percent ahead of this time last year. Business travel has reportedly increased in recent months, accounting for a growing share of revenues. Broadway theaters report that attendance picked up a bit in the latter part of July and remained brisk in August—up roughly 5 percent from a year earlier, though the average ticket price was down 4 percent in August from comparable 2009 levels. Overall revenues were up moderately from a year earlier in July but flat in the first three weeks of August.

Construction and Real Estate

Housing markets have shown further signs of softening since the last report, with much of the weakness again attributed to the expiration of the home-buyer tax credit. Buffalo-area Realtors say the market has cooled dramatically and describe home sales activity as "totally dead" in July and early August; historically low mortgage rates are said to be having little if any positive effect. They also report that pending sales activity has fallen sharply and that the number of active listings has increased. One contact in western New York State anticipates consolidation in the real estate industry, as some agents and brokers are likely to merge or exit the market. Across New York State more broadly, the number of sales transactions fell by roughly half from June to July—a far steeper drop than the seasonal norm—and was down 35 percent from a year earlier. The median reported sales price rose in July and was up from a year earlier, though one industry contact notes that this may reflect a shift in the mix, as the expiration of the tax credit predominantly affected the lower end of the market. An authority on New Jersey's housing industry reports that market conditions appear to be weak but concedes that underlying fundamentals are difficult to gauge during this perennially slow season. With builders holding off on new construction, inventories have gotten quite low, though prices still seem to be drifting lower. Most of the multi-family development along New Jersey's "Gold Coast" (across from Manhattan) has now shifted to rentals.

In New York City, conditions were more mixed. Activity in the city's co-op and condo market has fallen off by somewhat more than the seasonal norm in July and August, following a brisk second quarter; activity has dropped off particularly sharply on Long Island and, in general, at the lower end of the market. A leading appraisal firm reports that prices remain essentially flat in Manhattan and across New York City generally. The appraisal business has reportedly remained strong. Manhattan's rental market, though still somewhat slack, has continued to recover: rental activity has remained stable at a moderate level, while effective rents have rebounded—contract rents have risen only modestly, but landlords are offer fewer concessions (i.e. fewer months free rent). A considerable volume of new development will be coming onto the market, probably largely as rentals, in the months ahead.

Office markets across the District were generally steady to weaker since the last report. Vacancy rates were steady throughout most of the District, though they increased modestly in Manhattan and the Albany area. Asking rents were also little changed overall; they edged up in the Long Island and Syracuse areas but edged down in the northern New Jersey and Albany markets. Asking rents are still down sharply from a year ago in Manhattan and down moderately in Long Island and northern New Jersey; however, rents are up from a year ago in the Buffalo, Syracuse and Albany areas. Industrial markets were also steady to weaker across the District since the last report. Industrial vacancy rates rose modestly across the New York City metro area and held steady in the Buffalo and Rochester areas. Asking rents were generally down 3-4 percent from a year ago.

Other Business Activity

Manufacturing firms in the District report some leveling off in conditions in July and August, after reporting fairly widespread improvement during the first half of the year. However, a sizable number of manufacturing contacts indicate that they are increasing employment. Non-manufacturing firms report ongoing improvement in general business conditions and continue to report moderate increases in employment; they remain fairly optimistic about the near term outlook. Both manufacturers and other firms report ongoing increases in prices paid but only modest changes in selling prices. Separately, a trade association survey of New York State firms, conducted in July, indicates fairly widespread optimism about revenue growth and notes that far more respondents plan to increase than decrease head-counts in the next year.

A major NYC employment agency, specializing in office jobs, reports that, while the job market is difficult to gauge during the slow summer season, market conditions appear to be improving gradually and conditions are not as dire as last summer. The pool of available candidates is not as large as it was last summer; however, some people who had given up looking are starting to come back.

Financial Developments

Contacts at small to medium sized banks in the District report decreased demand for consumer loans and commercial mortgages, and steady demand for commercial and industrial loans. Demand for residential mortgages picked up, but this may largely reflect refinancing of existing loans (which rose sharply). Respondents indicate a tightening of credit standards for all categories—particularly in the commercial mortgage category. For the first time in well over a year, bankers report a decrease in spreads of loan rates over costs of funds—primarily for residential mortgages. Bankers report little or no change in spreads for other loan categories. Finally, bankers' responses point to increased delinquency rates for residential mortgages, commercial mortgages and commercial and industrial loans but little change in delinquencies for consumer loans.

THIRD DISTRICT – PHILADELPHIA

Business conditions in the Third District have been mixed since the last Beige Book. Manufacturers, on balance, reported slight decreases in shipments and new orders in August. Retailers posted seasonal increases in sales as well as year-over-year gains. Motor vehicle dealers also generally posted year-over-year gains but indicated that sales have been only steady in recent weeks. Third District banks reported steady loan volume outstanding in the past few weeks. Residential real estate agents and homebuilders said that there has been no rebound from the sharp drop in home sales that followed the expiration of the federal tax credit for purchases. Contacts in the commercial real estate sector said there has been practically no change since the last Beige Book in the generally weak market conditions around the District. Service-sector firms reported mostly flat or very slight increases in activity since mid-summer. Business firms in the region indicated that prices of most goods and services have been steady, although there continued to be reports of increased prices for some metals and wood products. Several retailers said they were receiving indications from suppliers that wholesale prices will be increased toward the end of the year.

The outlook among Third District business contacts is positive but not strong. Manufacturers forecast a rise in shipments and orders during the next six months. Retailers expect sales to expand slightly but see no signs that the pace of growth will quicken. Bankers expect little or no growth in lending in the near term. Contacts in both residential and commercial real estate expect flat activity during the rest of the year. Service-sector companies expect slow growth for the rest of the year.

Manufacturing

Third District manufacturers reported slight decreases in shipments and new orders from July to August, on balance, as well as a decrease in order backlogs. Slower activity was reported in most of the major manufacturing sectors in the District. However, producers of wood products, food products, industrial materials, and measuring and testing equipment reported increased demand for their products.

Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms surveyed in August, about 40 percent expect increases in new orders and shipments, and about 20 percent expect decreases. Capital spending plans among area manufacturers remain positive, overall, but are not strong. About one-third of the firms polled in August plan to increase expenditures for new plant and equipment, and about one-fifth expect to reduce spending. Several manufacturing executives indicated that uncertainties about economic conditions and policies were deterring advances in business activity. One noted that, “There is no sign of sustainable improvement in demand, so we remain cautious about inventories, capital spending, and hiring.” Another said, “Investment spending is not increasing because of concern about tax increases on business owners.”

Retail

Third District retailers reported that sales rose from July to August for the back-to-school shopping period, and most of the stores surveyed posted year-over-year gains for the period. Store executives continued to note that much of the year-over-year improvement in sales has been a consequence of last year’s poor results; nevertheless, many said the fundamental trend in sales was beginning to strengthen. Some merchants noted relatively healthy sales of apparel and small appliances, albeit with significant discounting, but weak sales of big-ticket consumer electronic products. Most store executives described inventories as being in line with current and expected sales. Looking ahead, most of the retailers contacted for this report said they expected modest growth in sales through the end of the year. The consensus was reflected in the comment of one store executive, “We are in a recovery, but it will not get stronger until employment increases.”

Third District auto dealers reported roughly steady sales during July and August at a rate somewhat above the year-ago pace. Dealers expect sales to continue to run at about the current rate for the rest of the year. However, some dealers said manufacturers’ incentives are supporting sales of current model-year vehicles, and sales could slip when that supply is depleted and replaced by new model-year vehicles.

Tourism officials and industry executives in the region generally reported increased activity compared with last year, although most noted that overall business remained below the levels of 2007 and 2008. Contacts indicated that travel and tourism revenue was only modestly above the year-ago level as lower spending per person partially offset increased numbers of people visiting the region's tourist attractions.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has been virtually level since the last Beige Book. Commercial bank lending officers said there has been a slight increase in credit extended on home equity lines, but practically no change in outstandings in other credit categories. Bankers continued to report low demand for both consumer and business loans. "It's still a deleveraging story," one banker said. Commercial bank officers indicated that credit quality has been steady or has improved slightly since the last Beige Book.

Looking ahead, Third District bankers expect little, if any, growth until both consumer and business confidence strengthen. Some bankers said business lending could begin to move up in the near term, but the consensus was that loan growth overall will be slight until there are clear signs that economic conditions are improving.

Real Estate and Construction

Contacts in residential real estate markets reported that the low rate of sales that took hold after the expiration of the federal income tax credit for home purchases has persisted into July and August for both new and existing homes. For both new and existing homes, contacts reported little change in prices, and they noted that lower-priced homes continued to sell at a relatively better pace than higher-priced homes. Residential real estate contacts expect sales to remain slow during the fall and winter. Although the inventory of homes for sale has not changed much recently, some contacts expect an increase in the spring of next year. One agent said, "A lot of people who don't need to sell right now have taken their homes off the market, and they will probably jump back in as soon as the market appears to be coming back."

Nonresidential real estate firms indicated that there has been little change in commercial and industrial markets since the last Beige Book. Contacts reported that purchases of income-producing properties by investors have picked up somewhat, but they said that commercial construction activity remains very slow, and there are few, if any, indications that new projects will be started in the near future. Commercial real estate contacts expect market conditions to show little change for at least the rest of the year. They believe that recent increases in available space are likely to restrain lease rates and, as one said, “Put a damper on future construction.”

Services

Service-sector firms generally reported minimal gains or flat rates of activity since the previous Beige Book. A large business services firm reported that client companies were not contracting for as much business as they had indicated earlier in the year. Several health-care organizations noted recent flattening in activity that is interrupting a long growth trend. In contrast, some temporary employment agencies noted that demand had picked up recently. Looking ahead, most of the services firms contacted for this report expect growth to be slow for the rest of the year. Some have reduced their forecasts; as one contact said, “It looks like we were a little too optimistic earlier this year.”

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 August reported no change from July in the costs of the commodities they use or the products they make. However, producers of primary metals and wood products raised prices. Construction firms gave mixed reports on prices, with some noting steady materials costs and some indicating increases for a variety of materials. Retailers generally noted that both wholesale costs and retail prices have been mostly steady, although several indicated that they expect wholesale price increases from their suppliers during the fourth quarter of this year.

Business firms in the region reported no significant change in wages. Employment agencies reported that client companies have begun to fill positions that have been open but do not appear to be adding employees. Some staffing firms said client companies are looking to rely more on temporary and contract workers to meet variable and uncertain workloads, rather than hiring permanent employees.

FOURTH DISTRICT – CLEVELAND

On balance, economic activity in the Fourth District showed a slight improvement during the past six weeks. Manufacturers reported that new orders and production levels were stable or marginally lower. An uptick was seen in residential and nonresidential construction, while retailers and auto dealers experienced a small rise in sales. Reports from energy producers and freight haulers were generally favorable. Demand by businesses and consumers for new loans remained weak.

The pace of new hiring has diminished, with only scattered reports of increased payrolls from manufacturers, nonresidential builders, and auto dealers. Overall, staffing-firm representatives noted little change in the number of new job openings, with available openings concentrated in healthcare and the skilled trades. Wage pressures continue to be contained. Apart from a rise in steel and agricultural commodity prices, raw materials and product pricing were generally stable.

Manufacturing. Reports from District factories show that production levels were mainly steady or down slightly during the past six weeks. Changes in new orders mirrored those in output. Production was higher on a year-over-year basis, with several contacts citing double-digit increases. A large majority of respondents expect output will stay at current levels for the near term. Those anticipating a drop in production attributed it primarily to seasonal factors or the continuing slump in residential construction. Most steel producers and service centers reported that volume was stable or increasing. Shipments are being driven by energy-related, auto, and heavy equipment industries. Construction volume remains weak. Although underlying uncertainty exists, more than half of our steel contacts expect that the current level of business activity is sustainable in the near term. District auto production showed a large drop in July on a month-over-month basis, due to retooling for model changeovers. In terms of year-over-year comparisons, production rose substantially for both domestic and foreign nameplates.

Only minor shifts in inventories were noted, mostly on the up side. A majority of our contacts stated that utilization rates remain below pre-recession levels, with little change during the past few weeks. Capital outlays continue at relatively low levels, with any significant increases due to investment projects that had been previously delayed. Steel producers and service center representatives reported that raw material prices are rising, although most indicated that their product pricing remains reasonably stable. A few have announced price increases that will go into effect as early as September. Other than a sharp rise in agricultural commodity prices, raw material costs have been fairly steady. We heard only scattered reports of companies hiring new workers, although several firms have extended work hours. Wage pressures are contained.

Real Estate. An uptick was seen in new home construction during the past six weeks and it is on par with year-ago levels. Homebuilders expect construction to remain sluggish going into 2011. Tight credit markets continue to hamper contractors from purchasing land or constructing spec houses. Our contacts tell us that the move-up price-point category is outperforming the entry-level and third-time home-buyer categories. New home prices have shown little movement since our last report and on a year-over-year basis. Other than reductions in lumber prices, construction material costs held steady. General contractors and subcontractors continue to work with very lean crews.

Reports by nonresidential builders indicate some improvement in construction activity since our last report. When comparing to year-ago levels, activity is as good or better according to almost all of our contacts. Backlogs are reasonably healthy, though two builders noted that their backlogs are being depleted at a rapid pace. Inquiries and new projects generally fall within the industrial and education categories. Most of our contacts expect little change in business conditions during the next 6 to 12 months, citing some weakness in inquiries and uncertainty about economic growth. Reports of a small increase in construction material costs, especially for steel, were widespread, and the availability of project financing has improved slightly. General contractors cited an uptick in payrolls. Subcontractors remain underutilized and are taking on projects at cost.

Consumer Spending. For the period from mid-July through mid-August, retail sales generally showed some improvement when compared to the previous 30-day period. Purchases rose slightly on a year-over-year basis. Still, consumers remain cautious in their purchases and are focusing on value-priced seasonal items. Going into the fourth quarter, retailers expect conservative sales growth. Two of our contacts noted modest price increases by their suppliers, which they have passed through to consumers. Margins are up slightly for most of our contacts. Other than replacement workers, retailers plan no additional hiring until the holiday season.

Auto dealers saw new vehicle sales strengthen from mid-July through mid-August, when compared with the previous 30 days. Reports also showed improving sales on a year-over-year basis. Expectations call for vehicle purchases to stabilize at current levels in the upcoming months. Many dealers continue to say that their inventories are at low levels. Used vehicle purchases are beginning to soften. Interest rates for auto loans are competitive, although arranging financing for customers with less than high credit ratings remains a challenge. Several auto dealers noted that they are undertaking facility upgrades to comply with OEM demands, and they are doing incremental hiring to meet customer demand.

Banking. The market for business lending remains soft, with bankers generally characterizing the demand for new commercial and industrial loans as steady or slowly improving. Commercial real estate lending is particularly weak. Interest rates moved by only a few basis points. On the consumer side, conventional loan demand is weak. Those seeing an uptick attributed it mainly to consumers looking for home equity loans and competitive pricing. Most of our contacts said that the demand for residential mortgage refinancing is very strong, while new-purchase mortgage originations continue at a slow pace. Core deposits held steady or increased at almost all banks, with much of the growth occurring in transaction accounts. Reports on credit quality were mixed, while delinquency rates declined somewhat. Employment rolls and wages showed little change.

Energy. Reports indicate steady to moderate increases in oil and natural gas output during the past six weeks, with output expected to remain at current levels in the near term. A big push is on to lease large tracts of farmland in eastern Ohio counties for the Marcellus Shale play. Farmers are being offered well-above average market rates for drilling rights. Spot prices for oil and natural gas are flat or down slightly. Coal production has been stable since our last report, with little change expected. Although summer cooling demand grew significantly from year-ago levels, resulting in stockpiles being drawn-down to normal levels, utilities have not increased their coal purchases. Metallurgical coal shipments to Brazil and Asia were characterized as very strong. Prices for coal were mixed but are tending to the up side. Credit availability is affecting capital spending: A coal producer canceled a machinery purchase because he could not obtain financing, while an energy company is expanding drilling operations due to a successful refinancing. Staffing levels are steady, and little hiring is expected in the near future.

Transportation. Freight transport executives reported continuing favorable volume trends, though the rate of growth seen in the past few months is slowing. Expectations call for current volume to be sustained in the near term. Two executives noted that they have been able to successfully negotiate rate increases, resulting in some improvement to their bottom lines. Several of our contacts reported that quoted prices for tractors and trailers have risen substantially, due mainly to complying with new environmental standards. However, these price increases may push back time tables for purchasing replacement equipment until sometime in 2011. Otherwise, only modest price increases were noted for materials and services used by freight haulers. Current hiring is for replacement only, not adding capacity.

FIFTH DISTRICT–RICHMOND

Overview. Signs of slowing or contracting economic activity became more prevalent in the Fifth District since our last report. Manufacturing activity continued to expand, but a slowdown in the pace of expansion that began several months ago continued into August. Tourism also improved, although discounting was often needed to attract visitors. We received mixed reports of activity at services-providing firms, while retailers reported flat-to-weakening sales over the last month. The financial and real estate sectors generally remained soft, with several reports by residential Realtors indicating further declines in both closed and pending home sales in recent months. The agricultural sector enjoyed increased rainfall, but the benefits were too late for some crops. Survey respondents in the retail sector cited cuts in the number of permanent job hires, but temp agencies noted increased demand for workers from the manufacturing sector.

Retail. Retail sales sputtered in August, with most merchants reporting either flat or contracting activity. Sales declined at several building supply businesses as well as lawn and garden retail establishments. An executive at a hardware store chain in central Virginia commented that sales were flat, and he had redistributed inventory across store locations as part of an ongoing cost reduction plan to survive the weak housing market. The store manager for a discount chain store in central North Carolina reported erratic apparel sales; however, he and several other retailers were relieved that early results from back-to-school sales on other items were at least satisfactory. Although grocery store sales generally grew, an executive at a Southwestern Virginia location reported that "margins are under constant pressure." Big-ticket sales remained weak, according to several contacts. A car dealer in the Tidewater area of Virginia and another in the South Carolina Piedmont indicated that their dealerships were seeing gradual improvement. However, contacts at other dealerships reported a slowdown in sales. In addition, several contacts at department stores expressed worry about soft holiday sales later this year. Our survey respondents indicated that retail price growth was moderate; average wages in the service sector rose.

Services. Services-providing firms also gave mixed reports. Contacts at healthcare organizations noted that demand was typical for the summer, while airport officials and electrical contractors saw a small increase in demand for their services. A telecommunications contact reported accelerating revenues, while several administrative-support firms cited flat or slowing revenue growth. Local officials in Norfolk, Virginia noted that a recently announced shut-down of major military facilities would affect a large number of civilian contractors. Community leaders indicated that they will be vying for other military projects. Price growth slowed slightly at services firms in recent weeks, according to survey respondents.

Manufacturing. District manufacturing activity continued to expand in late July and August, but some sources indicated a slowdown in demand over the last month. A chemical manufacturer commented that new equipment was being installed at his company with the expectation that the economy would continue to grow. Moreover, a packaging manufacturer informed us that demand was stronger at his company, and a parts supplier indicated that raw material inventories had decreased and his suppliers were having a hard time keeping up with demand at his firm. He added that his company was working Saturdays to meet demand and that inventories of finished goods remained below desired levels. A majority of survey respondents reported that shipments, new orders, and employment continued to grow, but at a slower pace than a month ago. Some declines were reported; for example, a manufacturer of exterior doors for residential housing said that all activity had ground to a halt in the building products industry. He noted that the slowdown started in May and continued through August.

Finance. Banking was widely described by contacts as weak and relatively unchanged since our last assessment. Several bankers noted that consumer loan demand remained soft, as consumers continued to reduce debt, and mortgage demand centered mostly on refinancing with existing clients. Small business loan demand was also described by most contacts as soft, as firms struggled with weak demand. One community bank official stated that auto dealers had difficulty obtaining floor-plan loans, even though they needed more inventory to support the current sales rate. A bank economist reported some improvement in equipment expenditure financing, which was mostly to replace out-dated technology and not to increase capacity. Tighter controls on credit cards, such as higher fees on overdrafts, were cited by one banker as limiting consumers' credit card usage. Credit quality was mostly unchanged, with several bank contacts noting no increase in delinquencies or late payments.

Real Estate. Real estate markets remained weak over the last four to six weeks. There were more reports of declining activity, especially in the residential sector. For example, several Realtors indicated that closed sales were flat to down in July and pending sales dropped in August both from a year-ago and on a seasonally adjusted month-over-month basis. Moreover, the home sales that did occur were dominated by foreclosure and short sales. A housing expert in the Hampton Roads area of Virginia stated that, with mortgage rates low and prices still falling, buyers were very picky and in no hurry to close deals. Several Realtors complained about buyers having more difficulty obtaining financing and about the amount of time required to get mortgage loan approvals. One Realtor stated that sales activity would benefit substantially if banks could speed up the process. Most Realtors cited continuing declines in home prices. Most Realtors said that the high-end market was extremely sluggish and often limited to corporate relocations. In contrast, however, a Realtor in the greater Washington, D.C. area reported that July sales were stronger than expected and that homes below $250,000 generally moved quickly.

On the commercial side, construction remained soft and there was continuing downward pressure on rents. Several commercial Realtors stated that both uncertainty about the economy and confusion about recent reforms were key factors in holding back sales and construction. Most contacts noted that vacancy rates were still rising. One developer attributed less demand for new building space from small business startups to the fact that laid-off workers were facing diminished savings due to the severe stock market and real estate slumps. In addition, a paving materials supplier reported that local sales of crushed stone, which is used as a base for laying concrete and other paving materials, were non-existent. State and local governments cut back construction projects as well, according to contacts.

Tourism. Tourist activity strengthened across the District since our last report. Along the District's coast, a contact in Myrtle Beach said that visitations were up in recent weeks, compared to a year ago, with slightly longer stays. Considerable increases in discretionary expenditures also positively affected the retail and hospitality sectors. However, reports from Baltimore, Washington, and Charleston, S.C. indicated that, while tourism picked up, stays were shorter and spending was lower than in the past. A manager from Virginia Beach also stated that, even though hotel bookings were up, vacationers were shortening their length of stay. A contact from Charleston, S.C. mentioned that hotel occupancy was up substantially from a year ago, although hotels were discounting to get people "in the door." People were often described as "taking staycations"— visiting nearby attractions, such as theme parks, museums, and historical areas, rather than taking vacations away from home. Contacts both along the seaboard and at mountain resorts reported that bookings for the Labor Day weekend were stronger than a year ago.

Labor Markets. Reports on Fifth District labor market activity was generally mixed in recent weeks. In service sector labor markets, survey respondents said that hiring was flat at services-providing firms, while retail job cuts were widespread. However, survey respondents from most manufacturing industries indicated continued mild expansion of employment and weekly production hours, but average wages slowed. Several contacts at temporary employment agencies reported generally stronger demand for temporary help since our last report, particularly in manufacturing. For example, a contact at an automotive plant told us that they had hired both additional full-time employees and temporary labor. Increased demand for temporary workers was reported by a wide array of service industries, including professional services, life sciences, banking, health care, and government.

Agriculture: In many sections of the District, soaking rains helped to refresh crops and improve pasture conditions. It was too late for corn, however, and in some areas of Virginia farmers shifted drought-stricken corn fields to cover crops and small grains. Analysts in Virginia reported that the corn harvest had very poor yields. Elsewhere in Virginia, flooding resulted in damage to silage corn, tobacco, vegetables, and both standing and baled hay. In contrast, the corn harvest was ahead of schedule in the Carolinas, although heavy showers hampered field work for some growers in both states. In West Virginia, pasture conditions ranged from very poor to excellent, but most fields were reported to be in fair to poor condition. Also, cattle producers in Virginia continued to cull herds due to reduced feed supplies. On a brighter note, ninety-four percent of peaches had been harvested in South Carolina, and the watermelon and cantaloupe harvest was nearing completion in that state. In Maryland, the peach harvest was 80 percent completed and apples were 20 percent harvested.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts indicated that the pace of economic activity continued to slow in July and August. Retailers reported a decrease in traffic and sales, and their outlook was less positive than in previous months. Reports from the District's tourism sector were mixed as contacts outside of the oil-spill affected Gulf coast experienced positive growth, but areas from Louisiana to the Florida panhandle saw significant declines in visitors. Residential real estate contacts noted that the pace of new and existing home sales slowed, and their outlook remained pessimistic. Nonresidential real estate activity remained weak. Manufacturers reported that the pace of new orders growth slowed. Banking credit conditions remained constrained and loan demand was reportedly weak. Labor markets improved modestly, but most businesses maintained a strong preference for increasing the hours worked of existing staff and expanding their use of temporary hires rather than for hiring permanent employees. Transportation and material prices rose slightly, but most firms expressed limited ability to pass increases through to consumers.

Consumer Spending and Tourism. Most District merchants reported that traffic and sales decreased in July and August. Retailers continued to keep inventory levels low and the outlook was less positive than in previous months. District automobile dealers indicated that sales increased from a year ago.

The oil spill had a negative impact on tourism along the affected Gulf Coast. Outside of areas affected by the oil spill, tourism continued to show signs of improvement compared with last year. Hospitality contacts in Miami, Nashville, New Orleans, and Orlando experienced increasing hotel occupancy rates in July and August. In addition, northeast Florida, Georgia, and mountain resorts in Tennessee saw an increase in activity – some reportedly as a result of deflected business from the oil affected areas. The cruise-line industry cited a pickup in traffic and a modest increase in prices.

Real Estate and Construction. Residential real estate reports showed that home sales weakened further in July and August compared with a year ago. Realtors noted that existing home sales fell slightly, while homebuilders said that new home sales fell further below the year-earlier level. New home construction softened further from already low levels. Realtors indicated that home listing inventories continued to rise, but homebuilders conveyed that new home inventories declined compared with a year earlier as a result of very weak new home construction. Home prices weakened somewhat in July and August and contacts noted mounting downward pressure on prices across the District. Contacts' outlook for both new and existing home sales growth over the next several months was pessimistic.

Nonresidential construction activity remained weak. Contractors noted that the pace of commercial development was below the year-earlier level and backlogs remained low. Vacancy rates were high across the District and contacts continued to witness downward pressures on rents. Contractors' outlook for the rest of the year remained negative.

Manufacturing and Transportation. Manufacturing contacts reported that overall activity was expanding, but at a slower pace than in the previous report. Fewer District manufacturers noted increases in new orders, and more said that orders were lower. District trucking companies reported improved revenues and a moderate pickup in freight volumes through August compared with a year ago. However, railway companies described slower growth in motor vehicles, chemicals, and housing-related shipments.

Banking and Finance. Uncertainty and conservative lending continued to hamper loan activity across the District. Businesses cited difficulties receiving credit and many firms expressed little or no interest in applying for new loans because of low expectations for future sales or orders. Businesses also reported refusing offers of credit because of unfavorable terms from banks. However, multiple contacts indicated an expansion of trade credit to create and extend lines of credit outside of the traditional banking infrastructure. Personal and business bankruptcies increased across the District.

Employment and Prices. Private payroll employment improved slightly in July, although many businesses continued to note a strong preference for increasing existing staff hours and using part-time or temporary staff rather than hiring full-time employees. Contacts also reported that the pool and the qualifications of applicants have increased significantly. While the long-term impact of the oil spill on labor markets is still unknown, businesses along the Gulf coast noted that, so far, job losses have been largely offset by hiring in clean-up and mitigation efforts.

District contacts reported increases in commodity and transportation-related prices compared with a year ago. Most firms conveyed no plans to pass the increases on to consumers, opting instead to continue to internalize cost pressures through a combination of lower margins and increased efficiencies.

Natural Resources and Agriculture. Local oil production increased slightly and Gulf of Mexico crude inventories stayed near the top of their average range for this time of year. Contacts indicated that the impact on production from the oil spill were nominal. However, concern remains regarding the potential longer-term impact of the deepwater drilling moratorium on the Gulf's energy production and the business impact of increased liability insurance costs for independent oil companies.

Limited rainfall, coupled with hot temperatures, challenged crops and livestock in most District areas. Short topsoil moisture levels were widely reported across the District. In addition, dry weather conditions have pushed some growers to an early harvest season.

SEVENTH DISTRICT—CHICAGO

Summary. The pace of economic activity in the Seventh District moderated in July and August. Nonetheless, contacts remained cautiously optimistic that it would strengthen again as we near the end of the year. Manufacturing production growth slowed and private construction decreased, while consumer spending increased and business spending continued at a steady pace. Credit conditions improved slightly. Price and wage pressures were limited, while agricultural prices moved higher.

Consumer spending. Consumer spending increased from the previous reporting period. Retail sales excluding autos were up in August influenced by state sales tax holidays and heavy discounting on back-to-school items like clothing. Contacts noted that higher and lower-end retailers fared well, with middle-end retailers continuing to see customers trading down to lower priced alternatives. Auto sales rose in July as increased incentives spurred demand, but sales leveled off in August. Dealers continued to report that inventories were lower than desired, particularly for the most popular Ford, GM, and Chrysler models. In addition, warmer weather in late summer boosted travel and tourism activity in the District.

Business spending. Business spending continued at a steady pace in July and August. Inventory rebuilding was less widespread than earlier in the year, but was ongoing in several industries. Capital spending plans were largely unchanged, although merger and acquisition activity was reported to have picked up in manufacturing. The pace of hiring moderated, but manufacturing, information technology, and healthcare were exceptions to this trend. Contacts indicated that firms were increasingly engaging in replacement hiring for entry-level positions as they promote from within to address mid-level turnover. Demand for temporary and contract labor, while a bit weaker than during the previous reporting period, remained strong. Several contacts also noted a mismatch between the skills of the large number of unemployed workers and the types of available jobs.

Construction/real estate. Construction activity decreased from the previous reporting period. Residential building remained minimal despite the fact that unsold inventory has fallen considerably in recent months. Both new and existing home sales declined, with foreclosed homes coming onto the market at a heightened pace. A contact noted that downward pressure on new home prices had likely bottomed out due to the fact that builders were refraining from reducing prices below costs, as many had done earlier in the year. Refinancing activity picked up as mortgage rates moved lower, but contacts continued to report that new mortgage credit remained tight for many borrowers. Private nonresidential construction was again constrained by elevated vacancies and declining commercial rents. Contacts also noted, however, an increase in inquiries and redevelopment projects of vacant commercial space. In contrast, public construction increased with activity concentrated in transportation infrastructure and healthcare-related projects.

Manufacturing. Manufacturing production growth slowed from the previous reporting period. Contacts indicated it was difficult to gauge the extent of the recent softening as July and August, in general, tend to be slower. In a positive sign, several metals manufacturers indicated that orders and inquiries had begun to firm in recent weeks. Manufacturers of construction materials and household goods reported declines in shipments, with the exception of household appliances where inventory continued to be rebuilt in the aftermath of the recent rebate programs. The transportation industry remained a source of growth with auto and heavy truck production holding steady. Demand for heavy equipment increased considerably as rental companies rebuild inventories following greater than expected demand this past spring. Export activity was also robust, with heavy machinery and autos leading the way. Demand from developing economies in Asia and South America continued to be strong, but contacts also noted that demand from Europe had improved considerably in recent months.

Banking/finance. Credit conditions improved slightly from the previous reporting period. Corporate credit spreads edged lower and business loan demand was steady, driven mostly by refinancing and acquisition activity. On the other hand, demand for liquidity remained high with greater uncertainty over the economic outlook, regulation, and the political landscape restraining the supply of credit. Contacts indicated, however, that demand for distressed commercial properties continued to be strong. Banking contacts again noted that fierce competition was leading to greater flexibility in pricing and terms and greater availability of business loans. Consumer loan availability also increased, particularly for auto loans and credit cards. Bank loan quality continued to slowly improve, and lower loan loss provisions contributed to higher bank earnings.

Prices/costs. Price and wage pressures continued to be small in July and August. Pricing power and pass-through of cost pressures to downstream prices were limited. Commodity prices firmed, but only a few contacts reported significant increases in material costs. Similar to the previous reporting period, wage pressures increased only modestly. However, several contacts expressed concern over the prospect of rising healthcare costs in the coming year.

Agriculture. Crop conditions were better than a year ago in much of the District. Corn and soybean crops continued to develop ahead of last year’s pace, setting the stage for an early autumn harvest. However, alternating periods of excess precipitation and intense heat sapped the potential for record yields in many areas, and the incidence of diseased soybeans increased in Iowa. Preliminary yield reports were lower than anticipated, but the harvest was still expected to be a "good" one. A rally in corn and soybean prices during the reporting period prompted additional selling ahead of crop deliveries. Stocks were adequate to meet demand, but some poor quality corn required blending before it could be sold. Revenues in the livestock sector improved as dairy, hog, and cattle prices increased. In addition, a major recall of eggs produced in Iowa lowered supplies.

Eighth District - St. Louis

Summary

The economy of the Eighth District has grown modestly since our previous report. Economic activity in the manufacturing sector increased, on balance, as did activity in the services sector. While retail sales reports were mixed, auto sales in July and early August increased over a year ago. Residential real estate markets held steady and commercial real estate activity remained slow. Overall lending activity at a sample of large District banks was largely unchanged during the three-month period ending in July.

Consumer Spending

Retail sales reports from contacts in July and early August were mixed. Compared with a year ago, about 37 percent of the retailers saw increases in sales, while 42 percent saw decreases and 21 percent saw no changes. About 32 percent of the respondents noted that sales levels met their expectations, 47 percent reported that sales were below expectations, and 21 percent reported that sales were above expectations. Higher-priced items continued to be weak sellers. One third of the contacts noted that their inventories were too high, while 16 percent reported that their inventories were too low. The sales outlook among the retailers for September and October was mostly optimistic. About 56 percent of the retailers expect sales to increase over 2009 levels, while 20 percent expect sales to decrease and 24 percent expect sales to be similar to last year.

Car dealers in the District reported that, compared with last year, sales in July and early August were up, on average. About 44 percent of the car dealers surveyed saw increases in sales, while 32 percent saw decreases and 24 percent saw no changes. Just under half of the car dealers noted that used car sales had increased relative to new car sales, while 12 percent reported the opposite. Also, 20 percent reported more acceptances of finance applications, but 12 percent reported more rejections. A slight majority of the car dealers surveyed reported that their inventories were too low, while 12 percent reported that their inventories were too high. The sales outlook among the car dealers for September and October was generally optimistic. About 56 percent of the car dealers expect sales to increase over 2009 levels, but 16 percent expect sales to decrease. The remaining 28 percent expect sales to be similar to last year.

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 soap and cleaning compound, aerospace products and parts, glass products, motor vehicle parts, and primary metal manufacturing industries reported plans to open new facilities in the District and hire employees. Contacts in the food, engine, adhesive, and sanitary paper products manufacturing industries reported plans to expand existing facilities and operations. In contrast, firms in the furniture, hand tool, and power transmission equipment manufacturing industries announced plans to decrease operations and lay off workers.

The District's services sector also has continued to improve since our previous report. Firms in the transportation, business support, telecommunications, and government services industries expanded existing operations and hired new employees. Additionally, firms in the restaurant industry opened several new facilities. In contrast, contacts in the business support services and janitorial services industries reported plans to decrease operations and lay off workers.

Real Estate and Construction

Home sales varied across the Eighth District. Compared with the same period in 2009, July 2010 year-to-date home sales were down 1 percent in St. Louis and 1 percent in Memphis. However, over the same period, sales increased 19 percent in Louisville and 5 percent in Little Rock. Residential construction continued to improve in most of the District. July 2010 year-to-date single-family housing permits were up in the majority of the District metro areas compared with the same period in 2009. Permits increased 17 percent in Little Rock, 18 percent in St. Louis, and 23 percent in Memphis. Permits, however, remained the same in Louisville.

Demand conditions in commercial and industrial real estate markets were mixed, while activity in the sector remained weak. Compared with the first quarter of 2010, second-quarter 2010 industrial vacancy rates decreased in St. Louis but increased in Little Rock and Memphis; vacancy rates remained stable in Louisville over the same period. The downtown office vacancy rate decreased in Little Rock, Louisville, and Memphis but increased in St. Louis. During the same period, suburban office vacancy rates decreased in Little Rock and Memphis but increased in Louisville and St. Louis. A contact in south central Kentucky reported that commercial construction is steady but there are concerns that the pipeline for new projects is lean. A commercial constructing contact in northeast Arkansas reported that projects are few and for the most part small, with some activity in education-related projects. A contact in St. Louis reported that construction of office and warehouse spaces has been limited. In contrast, contacts in the northeast Mississippi region have reported significant industrial construction plans.

Banking and Finance

A survey of senior loan officers at a sample of large District banks indicates little change in overall lending activity for the three-month period ending in July. Credit standards for commercial and industrial loans remained basically unchanged, while demand for these loans was about the same. Credit standards for commercial real estate loans were also basically unchanged, while demand for these loans varied slightly, ranging from moderately weaker to moderately stronger. Meanwhile, credit standards for consumer loans were basically unchanged, while demand for these loans was mixed, ranging from weaker to moderately stronger. Credit standards for residential mortgage loans remained basically unchanged, while demand for these loans was moderately weaker.

Agriculture and Natural Resources

Generally, development of the District's major crops remained ahead of its 5-year average pace. The overall condition of corn, soybeans, rice, cotton, and sorghum has deteriorated slightly since our previous report: As of August 1, yields for most of the major crops in each District state were expected to be at least 94 percent of last year's yields, although yields for corn and soybeans in both Kentucky and Tennessee and winter wheat in Indiana were expected to be 10 to 20 percent lower than last year. Since our previous report, soil moisture ratings and pasture conditions have deteriorated in most District states.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew modestly since the last report. Consumer spending, tourism, residential construction, services, manufacturing, energy, mining and agriculture saw increases. Activity in the commercial and residential real estate sectors decreased, while commercial construction remained weak. Labor markets strengthened slightly since the last report. Wage increases were moderate, and prices increased modestly.

Consumer Spending and Tourism

Retail spending increased moderately. A major Minneapolis-based retailer reported that same-store sales in July were up 2 percent compared with a year earlier, and a Minnesota-based restaurant chain reported that recent sales increased moderately compared with a year ago. July sales at two Minneapolis area malls were above year-ago levels, and mall traffic seemed to hold steady during August. A retailer in Montana noted that sales for appliances and electronics were up about 10 percent compared with a year ago. In southwestern Montana, a furniture store reported that recent sales increased; however, sales at a lumber and home improvement retailer were down. A chamber of commerce representative in northwestern Wisconsin noted that while retail sales had been tracking downward compared with a year ago, there was a recent pickup due to solid tourism activity.

Vehicle sales were up slightly in North Dakota, according to a representative of an auto dealers association. The owner of a Minnesota domestic auto dealer said that August sales were up from a year ago, but corporate customers were more cautious about purchases.

Summer tourism activity was solid. Resorts in north-central Minnesota reported that lodging revenue was up about 10 percent on average compared with a year ago; restaurants also saw strong increases. Tourism activity was above year-earlier levels in North Dakota, according to an official. In western South Dakota, the number of visits and sales at attractions were on par with last year’s strong summer season. Visits to Yellowstone and Glacier national parks were higher than a year ago, but on average tourists were spending less.

Construction and Real Estate

Commercial construction was slow. Few large projects were under way in the Minneapolis-St. Paul area. Commercial permits in Montana were at about half of their year-ago levels for both June and year-to-date. Commercial building in Fargo, N.D., has recently slowed despite a relatively low unemployment rate in the area. Residential construction continued its mild recovery. The number and value of August residential permits in Minneapolis-St. Paul increased from both July and June levels. The value of residential permits in Sioux Falls, S.D., was roughly flat in July from a year earlier.

Activity in commercial real estate markets was down. A commercial brokerage in Minneapolis said that while unused space continued to increase, the rate of increase seemed to have slowed recently. Vacancy rates there were at record highs; the retail sector was particularly hard hit. A bank director in Billings, Mont., said market activity there was down substantially and was expected to continue to drop. Recent residential real estate activity decreased from a year earlier. July closed sales in Minneapolis-St. Paul were down 40 percent from a year earlier; however, median sales prices were up more than 2 percent.

Services

Activity in the professional business services sector increased since the last report. Contacts from the legal sector reported that billings during July were up from a year ago, especially for firms that deal with bankruptcies. A call center is expanding in South Dakota. Appraisers and other professional services firms that support home refinancing reported strong activity over the past month.

Manufacturing

Manufacturing output was up since the last report. A July survey of purchasing managers by Creighton University (Omaha, Neb.) showed strong increases in manufacturing activity in Minnesota and South Dakota, and slight increases in North Dakota. A drainage pipe maker is opening a plant in South Dakota. In Minnesota, two new solar energy component manufacturing facilities are planned. In the Upper Peninsula of Michigan, a coated paper company noted an increase in orders over the past two months from earlier this year and last year.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Late-August oil exploration increased from mid-July. New wind energy projects are planned in the Dakotas. Most District mines were operating at near capacity. Iron ore production in Minnesota increased in July compared with June. Meanwhile, in the Upper Peninsula, a new copper mine was under construction. A new coal mine was under consideration in Montana. Exploration for a potash mine was under way in North Dakota.

Agriculture

Agricultural activity increased. Crop conditions improved across most of the District. The price of wheat surged since the last report. Sugar beet producers expected an early harvest with large yields, but were concerned about a judge's ruling to halt the use of GMO seeds until the conclusion of an environmental impact study. Meanwhile, the Minneapolis Fed's second-quarter (July) survey of agricultural credit conditions indicated that lenders expect overall agricultural income and capital spending to decrease in the third quarter.

Employment, Wages and Prices

Labor markets strengthened slightly since the last report. After 25 straight months of year-over-year employment decreases in Minnesota and Wisconsin, both states recently posted modest year-over-year employment increases. Initial claims for unemployment insurance in Minnesota were down 24 percent in July compared with July 2009, but were still higher than July 2008 levels. A temporary staffing firm in Minnesota noted that demand for industrial workers was even in July, but has picked up somewhat in August.

Despite recent strengthening, overall labor market conditions remained weak. In Minnesota, a hospital recently announced plans to eliminate up to 250 full-time positions by year-end. Two Minnesota state universities announced layoffs of almost 40 tenure-track faculty in anticipation of future funding cuts. There were plenty of qualified applicants available to fill open positions in Montana. In addition, fewer foreign workers were needed to fill seasonal jobs in Montana this past summer compared with a year ago.

Wage increases were moderate. Average wages for manufacturing employees in District states for the three-month period ended in July 2010 were only 1 percent higher than the same period a year ago. A nurses union in Duluth, Minn., called for a one-day strike; staffing levels were the primary issue. In Montana, a bank director noted that a number of employers were uncertain about their obligations under the new health care system and therefore were hesitant to make long-term commitments regarding benefits.

Overall prices increased modestly. Minnesota gasoline prices decreased slightly from mid-July through the end of August. Fertilizer prices were lower than a year ago. Meanwhile, prices for copper and lead increased from mid-July through the end of August.

TENTH DISTRICT - KANSAS CITY

Growth in the Tenth District economy was modest in late July and August. Consumer spending increased slightly from the previous period, and high-tech and transportation firms reported moderate growth. Energy activity continued to expand solidly, and agricultural conditions improved with higher crop prices. Manufacturing production was flat, and factory orders declined slightly. The downturn in commercial real estate eased somewhat, while residential real estate markets weakened further. Bankers reported steady loan demand and an unchanged outlook for loan quality. Business contacts were moderately optimistic about future sales, but few planned to change employment or capital spending levels in the months ahead. Retail prices were largely unchanged from the previous survey, and wage pressures in most industries remained limited due to soft labor markets.

Consumer Spending. Consumer spending rose modestly from the previous survey, and contacts expected further growth in the months ahead. Retail sales edged higher and were above year-ago levels at a majority of stores and malls. Purchases of energy-saving appliances and clearance items were reported as strong at several stores, while sales of luxury items such as jewelry and dining room sets were generally characterized as weak. Store inventories rose somewhat, but most contacts were satisfied with current stock levels. Auto sales also increased slightly from the previous period, and nearly all dealers were optimistic about future sales. Auto inventories continued to decline, and some dealers were concerned about meeting expected demand as a result. Restaurant sales rose solidly from the previous period, and travel and tourism activity continued to improve. Several resort contacts in Colorado anticipated a considerable rebound for the upcoming ski season, following weakness last winter.

Manufacturing and Other Business Activity. Manufacturing activity slowed in late July and August, while other business activity continued to expand. Factory production was flat compared to previous months, while shipments and new orders weakened. A producer of chemicals said distributors were only placing orders for product as needed and were unwilling to bring in inventory due to high levels of economic uncertainty. Growth in transportation services moderated slightly from previous surveys but remained solid, and a major supplier of diesel fuel reported continued solid sales. Most high-tech services firms reported strong growth in sales, although a few contacts noted softened demand. Business firms' expectations for future sales eased somewhat from the previous period but remained positive. Capital spending plans for the rest of the year remained essentially flat, with most firms citing economic uncertainty as the primary reason.

Real Estate and Construction. Residential real estate activity dropped sharply in late July and August, but the downturn in commercial real estate activity lessened somewhat. Housing starts declined, with several builders noting continued financing difficulties. Expectations for future homebuilding remained weak, although one Colorado contact believed a floor seemed to be forming in that state. Residential construction supply firms also reported a drop in sales. Home sales plummeted from the previous survey, especially for higher-priced homes, and home inventories rose across the District. Real estate agents blamed the steep drop in home sales on expired tax credits and increased customer uncertainty, and most expected little improvement in the near future. Mortgage lenders reported that overall mortgage demand improved slightly from last month, primarily due to a continued rise in refinancing loans. The downturn in commercial real estate stabilized somewhat in late July and August, but most contacts expected little improvement in coming months. Vacancy rates and leasing activity were flat compared to the previous survey, while construction fell further. Office prices and rents also continued to decline. Many commercial real estate contacts cited continued financing difficulties and high economic uncertainty among customers.

Banking. Bankers reported steady loan demand, stable deposits, and an unchanged outlook for loan quality. Overall loan demand was little changed after edging up in the previous survey. Demand was also stable in all major loan categories. As in previous surveys, a few banks tightened standards on their commercial real estate loans. However, credit standards on other types of loans were unchanged. Slightly more bankers reported an improvement in loan quality from one year ago than reported deterioration. Also, for the third straight survey, respondents expected no change in loan quality over the next six months. Deposits were flat, continuing the pattern since late last year.

Energy. Energy activity expanded further in late July and August. Virtually all contacts reported an increase in drilling activity, especially for oil, and were optimistic about the months ahead. Crude oil prices remained relatively profitable, and firms drilling for liquids in western Oklahoma were reported as operating at full capacity. However, several producers expressed concerns about low natural gas prices and potentially negative implications of proposed energy legislation. Natural gas prices eased in August, and most producers did not expect sizable increases in prices until well into 2011, due to ample supply and average demand.

Agriculture. Agricultural conditions improved since the last survey period. The winter wheat harvest finished with above average yields. The majority of the corn and soybean crops were rated in good or better condition, though with isolated reports of heat stress, storm damage, and insect infestation. Crop prices rose on prospects of lower global grain supplies and Russia's ban on grain exports, boosting farm income expectations. Livestock prices generally held steady but higher feed costs narrowed profit margins. Farmland values rose further on strong demand from farm and non-farm buyers and a limited supply of land for sale during the growing season. However, the prospect of higher capital gains taxes in 2011 has prompted some farm owners to consider selling their farms before year-end. Agricultural credit conditions generally held steady.

Wages and Prices. Consumer prices were generally unchanged from the previous survey, and wage pressures in most industries remained subdued. Several manufacturers reported continued increases in materials prices, but only a few planned to raise finished goods prices. Construction supply firms reported declines in selling prices, which they generally expected to continue. The downward trend in overall retail prices in recent surveys flattened out slightly, and most contacts expected steady prices heading forward. Services firms reported no change in the prices charged to customers. Wage pressures were still contained in most industries, with labor markets remaining soft. However, some energy firms, auto dealers, and transportation firms reported a slight uptick in wage pressures due to difficulties finding qualified workers. Longer-term hiring announcements continued to rise, but near-term hiring plans generally remained modest.

ELEVENTH DISTRICT—DALLAS

Overview The Eleventh District economy expanded modestly over the past six weeks. The energy sector remained a source of strength, and agriculture, transportation services and staffing firms reported solid growth. Retailers said sales rose, but the pace of growth was slower. Reports from the manufacturing sector were mixed, but overall suggest a slowdown. In particular, construction-related manufacturers said demand was very weak as housing demand has retrenched and private nonresidential activity is almost nonexistent. Most respondents expect economic conditions to remain positive, although many expect slower growth through year-end. Uncertainty was prevalent in most outlooks.

Prices Selling prices held steady at most responding firms. Retailers said prices were flat and airline fares stabilized after increases earlier in the year. Contacts across industries said pricing was extremely competitive. There were, however, scattered reports of price increases in a few industries. Paper producers and aircraft manufacturers said they were able to pass on increased input costs. Additionally, prices for some petrochemical products rose slightly. Some staffing firms were attempting to raise fees due to strong demand. Contacts in the agricultural industry said commodity prices had moved up recently. Cotton prices are up nearly 50 percent over last year and cattle prices have risen strongly.

Crude oil prices fell below $73 per barrel by late August after a run up to $82 earlier in the month. The price of gasoline, diesel and heating oil fell during the reporting period, as inventories rose due to weak demand. Contacts said natural gas prices edged down to just under $4 per Mcf by late August as the national heat-wave subsided.

Labor Market Employment levels were stable at most firms, and the overall labor market remained somewhat slack. Some contacts in the lumber and trailer manufacturing industries reported layoffs. On a more positive note, there were scattered reports of hiring activity. Staffing firms cited continued increases in placement activity, and a few contacts in transportation services, legal services, automobile sales, and transportation manufacturing said they had added workers. Wage pressures were generally nonexistent, with exceptions found in the airline industry and for some temporary workers.

Manufacturing Most producers of construction-related materials—including brick, lumber, cement, glass and primary and fabricated metals—said conditions remained weak. Several respondents tied to housing construction said orders were especially low in July because of the vacuum created by the end of the tax credit. Contacts that produce products used in nonresidential construction noted most activity was related to public projects. Outlooks were slightly more pessimistic than in the last report, with several contacts expecting no turnaround until 2012. A primary metals producer that sells to transportation manufacturers was more upbeat and expects increased orders in coming months.

Manufacturers of high-tech products said demand held steady over the past six weeks. Growth in orders has leveled off in recent months after a replenishment of inventories earlier in the year that drove very strong growth. Most respondents characterize current order levels as good. Although inventories have increased, respondents said they are relatively lean and in some cases below desired levels. Several semiconductor contacts said that industry-wide capacity has fallen about 30 percent over the past three years and, even with growing capital expenditures, capacity utilization is likely to remain very high for the next two to three years. Outlooks were positive for the remainder of the year.

Paper manufacturers reported flat to declining sales over the past six weeks. Contacts said customers are very cautious about keeping inventories, due to pessimistic economic outlooks. Growth in demand for food products stalled since the last report. Respondents said they did not see the normal summer boost this year.

Non-defense aircraft manufacturers said orders held steady over the past six weeks and are above year-ago levels. Outlooks were cautiously optimistic. Trailer producers said demand had fallen as uncertainty about the national economy increased. Sales are expected to be slow through year-end.

Petrochemical producers were mostly optimistic, noting domestic orders were strong and growing. Export growth was positive but slower, as current prices were less competitive in Europe and Asia. The only reported weakness was for vinyl products used in housing and commercial construction. Refiners noted weaker conditions as seasonal gains in gasoline consumption did not materialize and distillate (diesel and heating oil) consumption slipped back. Contacts expect a decline in capacity utilization rates and refining runs due to weaker margins.

Retail Retailers noted that growth has slowed recently, but sales are up on a year-over-year basis. Customers continue to focus on non-discretionary items while shunning big-ticket purchases. Eleventh District sales trended slightly above the nation over the reporting period, a change from the previous report. Outlooks suggest that while sales growth may be slower for the remainder of the year; overall 2010 sales should show positive single-digit growth.

Automobile demand held steady over the reporting period. Contacts said inventories are at appropriate levels and manufacturers are incrementally increasing production. Expectations are for continued modest improvement.

Services Most staffing firms report that demand continues to grow at a solid pace, and is particularly strong for light industrial, sales, administrative, professional and technical workers. Placement activity continues to be mostly for contract work as employers are still hesitant to hire permanent staff. Near-term outlooks are optimistic, but respondents are cautious about the longer term. Accounting firms note that while demand for tax-related services has slowed seasonally and that for real estate and construction-related work remains nonexistent, there has been a pickup in transactional and consulting activity. Demand for legal services was largely unchanged during the reporting period, with the exception of an uptick in corporate demand for mergers and acquisitions-related activity.

Demand for transportation services remains positive. Railroad respondents noted a broad-based increase in cargo volumes, with shipments of grain products recording the largest increase. Shipping firms said small parcel cargo volumes rose, while large freight shipments declined during the reporting period. Intermodal transportation firms reported a modest increase in shipments. Airline traffic was flat to slightly down since the last report, but is stronger than a year ago. The outlook is for continued stability in air travel demand.

Construction and Real Estate Home sales continued to slide since the last report. Contacts noted demand was especially weak in the lower-priced segment of the market which had benefitted most from the homebuyer tax credits. Construction of new homes fell as large public builders scaled back. Outlooks are guarded for the rest of the year. Sales and construction are expected to remain weak, as the tax credit affected the timing of purchase decisions.

Contacts in the office and industrial real estate sectors said leasing activity remained subdued. Investor interest in nonresidential properties remains high however, and contacts say sales continue to edge up.

Nonresidential construction remains weak. Contacts reported a notable lack of private nonresidential projects. Public construction is the main source of activity for most contacts, but some expressed concern that such projects would subside due to budget constraints.

Financial Services Financial firms said loan demand continued to trail off. Business lending was especially weak, and contacts said businesses lacked confidence and were unwilling to make financial commitments. Deposit growth was strong, and credit quality on outstanding loans was stable. Several respondents reported concerns over financial reform legislation and other political uncertainties. Earnings projections are flat for 2011, and some contacts were building up loan loss reserves in preparation for the coming year.

Energy Drilling activity in the Eleventh District rose since the last report. The Permian Basin in Texas led the increase, as activity continues to be directed to land-based oil. Drilling service companies noted solid demand and improved margins. Contacts noted that the deep water drilling moratorium will impact revenues, but strong domestic land and international activity is mitigating the impact.

Agriculture Hot, dry weather reduced soil moisture in most of the District, but drought conditions are minimal. Respondents said crop conditions remain very strong, and yields for harvested crops are above average. A record cotton crop is expected for Texas this year. Demand for U.S. agricultural products has picked up in the wake of the devastating flood in Pakistan and drought in Russia, and most commodity prices have moved up as a result.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District appeared to expand modestly during the reporting period of mid-July through the end of August. Upward pressures on prices and wages were quite limited. Sales of retail items and services were mixed but grew on balance. District manufacturing activity firmed a bit further, with continued strength evident for manufacturers of information technology products. Agricultural producers reported robust sales, and demand strengthened further for energy resources. Activity in District housing markets continued to slide, while demand for commercial real estate remained weak. Contacts from financial institutions reported slight declines in lending activity but further improvements in credit quality.

Wages and Prices

Upward price pressures remained very limited on net during the reporting period. Commodity prices in general were largely stable, with the exception of rising grain prices and pronounced short-term volatility in oil prices. Excess capacity and extensive competition continued to hold down final prices for most retail items and service categories. The primary exception was health care, for which prices continued to rise. Looking forward, contacts in general anticipate that prices for their products will change little over the balance of 2010.

Upward wage pressures were largely absent, as high unemployment and limited demand for new employees held down compensation gains in most regions and sectors. Contacts continued to report significant increases in the costs of employee benefits, most notably for health insurance. Reports indicated that most businesses remain cautious in their approach to hiring and continue to rely on improved productivity rather than increased employment as a means to expand output.

Retail Trade and Services

Retail sales were mixed. Traditional department stores and discount retail chains alike reported further sales increases for small household items, with generally balanced inventories noted. By contrast, sellers of major appliances and furniture reported a slowdown and “difficult” conditions in July and

August. Grocers reported largely flat sales and noted an ongoing shift towards less-expensive generic labels. Sales of new domestic and imported automobiles improved near the beginning of the reporting period but slowed subsequently. Used vehicle sales improved marginally, while dealers faced a limited supply that kept inventories tight.

Demand for services improved modestly on balance but remained lackluster overall. Demand for professional, media, and entertainment services was mixed across sectors but appeared to be largely stable at low levels on net. Providers of energy services reported stronger demand for industrial use, with the exception of wood products. Contacts from around the District noted increased business travel and tourism activity, as reflected in higher visitor volumes, hotel occupancy rates, and airline passenger miles, although visitor spending remained weak. Providers of health-care services reported that demand slipped somewhat, which they attributed in part to rising postponements or cancellations of elective procedures and routine tests by individuals who lack health insurance.

Manufacturing

District manufacturing activity generally continued to grow during the reporting period of mid-July through the end of August. Demand strengthened further for manufacturers of semiconductors and other technology products, with high levels of capacity utilization and balanced inventories noted. While new orders remained limited for makers of commercial aircraft and parts, extensive order backlogs kept production rates near capacity limits. Activity at petroleum refineries rose in response to increased demand, although inventories remained at elevated levels. Food manufacturers reported further growth in sales. By contrast, demand for wood products deteriorated, reportedly as a result of a slowdown in new home construction as well as residential repair and remodeling activity.

Agriculture and Resource-related Industries

Demand remained strong for agricultural products and improved further for natural resources used for energy production. Orders and final sales continued to be robust for assorted crops and livestock products. Contacts generally noted stable input costs and supply conditions, although unseasonably cool weather in parts of California compressed the growing seasons for some crops. Oil extraction activity expanded further as a result of recent increases in global demand, and strong demand for natural gas caused the number of rigs in service to rise.

Real Estate and Construction

Housing demand in the District weakened somewhat from the previous reporting period, while demand for commercial real estate remained largely stable at depressed levels. The pace of home sales continued to be mixed across areas but fell on balance, and contacts noted that the slowdown in home sales has placed renewed downward pressure on new home construction. Despite sluggish sales activity, home prices edged up further in some parts of the District. Demand for commercial real estate remained at very low levels, as reflected in elevated vacancy rates and subdued leasing activity for office and industrial space in many parts of the District. However, one contact reported further increases in the sales prices of selected commercial properties in some areas.

Financial Institutions

District banking contacts reported that loan demand slipped somewhat. Commercial and industrial loan volumes waned a bit, reportedly restrained by businesses' cautious attitudes towards capital spending stemming from their uncertainty about the future economic environment. While a majority of respondents across all industries indicated that they anticipate no change in the pace of economic growth in their respective industry or area in the second half of the year compared with the first, most of those who do expect a change foresee a slowdown as opposed to a pickup. Consumer loan demand also remained weak overall. By contrast, venture capital financing continued to be a bright spot, with contacts noting increased levels of funding, as well has heightened IPO activity. Although contacts noted slight improvements in overall credit quality, lending standards stayed relatively restrictive for business and consumer lending.