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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

November 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

November 2010

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Summary[1]

Reports from the twelve Federal Reserve Districts indicate that the economy continued to improve, on balance, during the reporting period from early/mid-October to mid-November. Economic activity in the Boston, Cleveland, Atlanta, Dallas, and San Francisco Districts increased at a slight to modest pace, while a somewhat stronger pace of economic activity was seen in New York, Richmond, Chicago, Minneapolis, and Kansas City. Philadelphia and St. Louis reported business conditions as mixed.

Manufacturing activity continued to expand in almost all Districts, with relatively strong growth seen in metal fabrication and the automotive industries. Reports also showed steady to increasing activity for professional and nonfinancial services. Two Districts noted a decline in demand from government agencies due to budgetary shortfalls. Reports on consumer spending tended to be positive. Nonetheless, several Districts noted that households remain price sensitive and focused on buying necessities. Expectations for the holiday shopping season were generally positive, with several Districts expecting higher sales when compared to year-ago levels. Sales of new cars and light trucks were largely higher than in our last report. Tourism improved in all reporting Districts.

Housing markets remain depressed, with several Districts reporting further weakening during the past six weeks. Conditions in commercial real estate were mixed, and activity stayed at low levels. Agricultural conditions were generally favorable, with several Districts reporting yields nearing historic highs. Agricultural sales to off-shore buyers increased. Overall activity in the energy sector continued to expand.

Lending activity remained stable across most Districts. Credit quality has been steady to improving for most of the Districts that commented on it. Prices for final goods and services were fairly

[1] Prepared by the Federal Reserve Bank of Cleveland based on information collected on or before November 19, 2010. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

stable, despite rising input costs, especially for agricultural commodities, metals, and fuel. Hiring activity showed some improvement across most Districts. Wage pressures were contained.

Manufacturing

Manufacturing activity continued to expand in most Districts. New York was the only District where manufacturing activity was reported to have weakened, while Dallas reported that manufacturing was mixed. Metal fabrication increased in Chicago, Kansas City, Dallas, and San Francisco. Contacts in automotive industries reported gains in Boston, Cleveland, Richmond, Atlanta, and Chicago. The Boston, Kansas City, and San Francisco Districts reported increased sales for high-technology manufacturers, though Dallas noted that growth in orders and production in high-technology industries had slowed from earlier in the year. Steel producers and service centers in the Cleveland District reported that volume was either flat or improving, while Chicago noted some temporary softening in steel demand. Refiners in the Dallas and San Francisco Districts noted reduced production levels. The Philadelphia and Dallas Districts indicated little improvement in demand for manufacturers with ties to residential housing and construction. The Philadelphia, Cleveland, and Kansas City Districts reported that capital spending or spending plans had increased. On net, manufacturers in the St. Louis District reported they planned to expand operations. Contacts in Boston, New York, and Richmond commented on increasing input costs. Several Districts noted an optimistic outlook from manufacturers. Boston and Richmond described manufacturers as upbeat; New York and Chicago reported contacts as more optimistic; and Philadelphia and Minneapolis manufacturers expect increases in activity in the near term. However, several contacts in Dallas expressed concern about a decline in demand from government agencies, as budget shortfalls continue.

Nonfinancial Services

Activity was steady to increasing for professional and nonfinancial services across most Districts. The exception was the St. Louis District, which reported a decline in service sector activity. Boston, Philadelphia, Minneapolis, and San Francisco noted growth in information technology services.

Accounting demand remained stable in the Dallas District, bolstered by consulting and merger and acquisition work. The healthcare sector was said to be expanding in reports from Philadelphia and St. Louis, though Richmond noted no change in demand. Firms that provide services to governments in the Philadelphia District indicated that their clients were using less of their services because of the tight budget environment. Demand for transportation services increased in several Districts. Freight companies in Cleveland noted that volumes increased slightly during the past six weeks, and contacts in Atlanta said freight volumes had improved from a year ago, with both Districts recognizing gains in chemical shipments. Regional rail contacts in Dallas noted strong increases in volume. Contacts in Dallas said that intermodal transportation firms experienced increased cargo volumes, buoyed by demand from international clients, as well as a rise in international container trade volumes. Kansas City reported that the transportation sector stabilized but noted a shortage of qualified drivers.

Consumer Spending and Tourism

Retail spending showed improvement across most Districts, with the exception of Boston, Cleveland, Richmond and St. Louis, where results were mixed. A return to more seasonably cool weather was credited for boosting sales in the New York and Dallas Districts. Grocers reported rising sales in Cleveland and Richmond, while sales dropped off in San Francisco. Purchases of apparel improved in the Philadelphia, Chicago, and Dallas Districts. Expectations for the holiday shopping season were positive across Districts; however, in Richmond, retailers expected holiday shopping to be restrained. Reports from the Philadelphia, Cleveland, Atlanta, and Chicago Districts indicated that consumers remained value conscious and tended to focus on buying necessities. Purchases of big ticket items were soft in Richmond, St. Louis, and Kansas City.

Sales of new automobiles and light trucks rose in nine Districts during the reporting period, with several Districts indicating that vehicle inventories are now at appropriate levels. Dealers expect new vehicle sales to continue rising through year-end in the Philadelphia, St. Louis, and Kansas City Districts.

Tourism was characterized as stronger or improved in the Boston, New York, Richmond, Atlanta, Minneapolis, Kansas City, and San Francisco Districts, while business travel to destinations in the New York, Atlanta, and San Francisco Districts increased. Occupancy rates at hotels in Manhattan and Atlanta's major markets were higher than a year ago. The Richmond and Atlanta Districts noted a pickup in international visitors. In Boston, increased tourism was attributed to generous travel incentives and perceived value, while Richmond noted that discretionary retail spending by tourists was lower.

Real Estate and Construction

Residential real estate and construction activity remained at a low level in all Districts. The Philadelphia, Atlanta, St. Louis, and Minneapolis Districts reported some further weakening in home sales. Boston, New York, and Richmond characterized the market as soft; while Cleveland, Kansas City, Dallas, and San Francisco described the market as sluggish. The Chicago District reported that high inventories of unsold homes continued to be a drag on new residential construction and home prices. Residential house prices were mixed. Price declines were observed in New York, Philadelphia, Atlanta, and Kansas City; prices were flat to up in Minneapolis, and prices edged up in Boston. The Dallas District reported that home prices increased on a year-over-year basis. The rental market continued to offer incentives to tenants in New York, while strong demand for rental units was reported in Richmond and Dallas. Outlooks for 2011 were mixed.

Conditions in the commercial real estate industry were mixed during the reporting period. Several Districts reported flat demand and high vacancy rates, which translated into limited nonresidential construction activity. The New York, Atlanta, and Kansas City Districts noted some weakening in nonresidential activity, while the Boston and Dallas Districts indicated some modest improvement in commercial real estate. Reports from Cleveland and Chicago noted that most new projects fell generally into the infrastructure category. Contacts in Boston, Richmond, Kansas City, and Dallas expressed some optimism about the near-term outlook in their Districts, but contacts in several other Districts expressed a more cautious outlook.

Banking and Finance

Banking conditions remained stable across most Districts. Lending activity was reported as steady or unchanged in New York, Philadelphia, St. Louis, Kansas City, Dallas, and San Francisco, while a slight improvement was noted in Cleveland, Richmond and Chicago. The Atlanta District reported constrained credit conditions and weak loan demand. Contacts in Chicago and Dallas said that increased competition for high-quality borrowers resulted in more aggressive loan pricing. Demand for commercial and industrial loans was generally stable, though several Districts noted improvements in specific loan categories. The Cleveland and Chicago Districts reported increased lending for mergers and acquisitions, and access to credit by small businesses in Atlanta improved slightly. Consumer lending has remained stable at weak levels in most Districts. The San Francisco District reported that loan demand declined slightly as a result of households' desire to deleverage, while Chicago saw a small pickup in consumer lending. Several Districts reported increases in lending related to residential real estate, and, in particular, to refinancing activity. Reports on changes in credit standards were mixed. Bankers in New York reported a tightening in credit standards across all loan categories, Kansas City contacts indicated no change in lending standards, and Atlanta reported an easing in standards for small firms. Contacts in the Cleveland, Richmond, and Chicago Districts reported improved credit quality, but San Francisco bankers noted ongoing struggles with credit quality. The Cleveland and Richmond Districts both reported declines in delinquencies.

A**griculture and Natural Resources**

Mainly favorable weather conditions helped facilitate early harvesting and the planting of winter crops. The Chicago, Minneapolis, and Dallas Districts reported large to record-setting yields for certain crops. Agricultural prices continued to climb, boosting farm incomes. Reports from several Districts indicated that higher grain prices were raising feed costs for livestock producers. Nonetheless, contacts in Chicago noted that even with higher feed costs, margins for livestock producers remain positive. Strong global demand and tight supplies pushed cotton prices to near historic highs for growers in Atlanta and

Dallas. San Francisco noted that reductions in overseas yields, combined with the lower value of the U.S. dollar, are helping boost domestic farm sales.

Activity in the energy sector was expanding. The number of active drilling rigs increased in the Atlanta, Kansas City, and Dallas Districts. Although producers are interested in returning to the Gulf of Mexico, drilling remains well below pre-oil spill levels as permit issuance lags. Producers in Kansas City expressed concern about future production due to labor and equipment shortages. Cleveland reported an increase in production from Marcellus shale. In the Minneapolis District, wind energy continued to expand, but at a slower pace than a year ago, while mining activity increased.

Labor and Prices

Hiring activity showed some improvement across most Districts, although employers are waiting for clearer signals of expanding business prospects before adding significantly to payrolls. A preference for part-time and temporary workers was reported in the Atlanta and Chicago Districts. Seasonal hiring in retail trade is expected to be higher this year in Chicago and San Francisco than in the previous two years. Employers in the Boston, Richmond, and Minneapolis Districts reported having difficulty finding skilled workers. Employment agencies in the New York, Richmond, and Chicago Districts reported a moderate increase in new job openings, while staffing firms in Dallas said that hiring activity is strong. Boston staffing contacts noted that labor demand has strengthened, particularly in the information technology, medical, manufacturing, and legal sectors. Wage pressures remain subdued across Districts. Contacts in Richmond and Kansas City noted that they expect little change in wage pressures during the upcoming months. However, employers in San Francisco reported significant increases in employee benefit costs.

Prices of final goods and services were fairly stable across Districts despite rising input costs, especially for agricultural commodities, metals, and fuel. Companies in the Atlanta, Chicago, Kansas City, and San Francisco Districts reported a limited ability to pass through higher input costs to customers given the relative softness in demand. However, some manufacturers in the Boston, Cleveland, and

Atlanta Districts have announced plans to raise their product prices in the near future. Retailers in Philadelphia and San Francisco noted price increases on selected products imported from Asian countries. Reports from the Chicago and Dallas Districts indicated that that record-high inventories and forecasts for a warmer-than-normal winter are putting downward pressure on natural gas prices.

FIRST DISTRICT – BOSTON

Business activity in the First District continues to expand gradually. Contacts in manufacturing, software and IT services, staffing, and commercial real estate seem more upbeat than six or 12 weeks ago, while retailers continue to give mixed reports, and residential real estate markets remain soft. Labor demand is improving somewhat, with most contacted sectors undertaking modest net hiring. Some firms report raising prices or wages and complain of selected increases in non-labor costs, but most say they are holding their prices and wages stable. The outlook for 2011 is slightly more optimistic than last time, with somewhat less reference to downside possibilities.

Retail and Tourism

First District retailers report mixed sales results for the fall months. Year-over-year same-store sales range from decreases in the low single digits to increases in the low single digits, with several contacts reporting flat sales. The majority of contacted retailers expect a highly promotional holiday shopping season yielding modest sales increases. Inventory levels are mixed, but generally in line with expectations. One respondent notes that cost pressure from reduced ocean freight capacity has abated, while another reports increasing price pressure from rising fuel costs. Headcounts continue to increase; these increases primarily reflect new store openings, although some firms are staffing up for the holidays. One respondent cites increased wage pressures. Retailers note significant cost increases for commodities, particularly cotton, liquid sugars, and nuts. Outlooks range from cautious to cautiously optimistic, with most contacts making less mention of downside risks than in earlier conversations.

Travel and tourism in the Boston area is strong. One contact attributes the trend to generous travel incentives and perceived value. Leisure travelers are reported to be taking more frequent short vacations rather than fewer long trips. The tourism outlook is seen as positive as long as the promotions continue.

Manufacturing and Related Services

Nearly all contacted manufacturing firms are relatively upbeat about their current activity levels. Firms in the semiconductor sector continue to report particularly robust sales growth in the third quarter, and manufacturers who sell components for automobiles and other machinery also report relatively strong revenue growth. A couple of manufacturers note that their sales are on pace with the very strong results they posted in the fall of 2008, prior to the economy's deterioration. Other firms indicate that their sales figures have weakened somewhat relative to the first half of this year, but are still strong relative to 2009. Most responding firms express less concern now than at the end of the summer that sales growth has plateaued and/or could diminish.

Inventory levels at most contacted firms have risen a bit since the second quarter, either to correct undue reductions made in response to the economic downturn or to limit future supply disruptions. One firm notes that its inventory levels are back on plan after being low for a few quarters because of a dramatic increase in orders. Some manufacturers say their suppliers continue to operate at capacity and are still slow to provide necessary production materials. These continued tight supplies along with rising oil and metals prices have created input cost pressures for selected firms. To offset their higher costs at least partially, these manufacturers (most of whom are intermediate-goods suppliers) have either raised their selling prices or plan to do so in the near future; one firm plans to raise prices from 4 percent to 6 percent, expecting that only about half of the increase will stick. Notwithstanding these exceptions, responding manufacturers characterize selling prices as relatively stable.

All but one of the contacted companies reports stable to increasing employment. The number of recent or planned hires at individual firms is not large, but they say business is good and they need more staff to handle the increased demand. Nonetheless, employment remains well below 2008 levels at most firms. In addition, capital expenditures currently remain in line with plans and most firms expect little if any change in capital spending for 2011.

Responding manufacturers generally expect growth to continue at a reasonable pace heading into 2011, although a few say they think 2011 may not be quite as strong as 2010. Indeed, some uncertainty continues to surround the outlook for next year. A number of firms, however, are somewhat less cautious when discussing the prospects for next year than they have been in recent conversations.

Software and Information Technology Services

New England software and information technology contacts report that business continues to improve, with year-over-year revenue increases ranging from mid-single digits to over 20 percent in the most recent quarter. Increased activity has led most respondents to continue raising their headcounts. One contact is adding positions across the board, reporting a 10 percent increase in staff year-to-date; another, by contrast, reports a modest reduction, with a number of customer service and information technology positions being sent overseas. Prices are holding steady, although most respondents report that strong discounting pressure still exists. Capital and technology spending is relatively unchanged, with only one contact reporting an increase in outlays. Respondents are generally more optimistic than they were three months ago. With strong order pipelines, most are expecting a continuation or slight acceleration of their current rate of growth in early 2011.

Staffing Services

A majority of New England staffing contacts report that business continues to expand. Most contacts describe business since the end of the third quarter as “good” or “slightly improved,” citing revenue growth in the single-digit range, although a few have experienced inconsistent activity in recent months. Year-over-year revenue changes range from flat to up more than 30 percent. Labor demand has strengthened, particularly in the information technology, medical, manufacturing, and legal sectors. Labor supply is starting to tighten, with contacts reporting increasing difficulty in finding qualified candidates, especially for high-skilled jobs. In response, many contacts have strengthened their recruitment efforts and some have expanded their sales forces. Jobs remain hard to fill from the demand side as well: an elongated hiring cycle persists, with many clients still reluctant to hire. Some respondents continue to express concern over rising employment-related costs such as UI and workers’ comp. Despite these concerns, staffing contacts remain generally positive in their outlook, predicting faster growth in 2011.

Commercial Real Estate

Reports indicate that New England’s commercial real estate market improved modestly in recent weeks. Office leasing volume is up in core Boston business zones, but mostly because of lease renewals as net absorption remains close to zero. Providence saw slow but positive net absorption and a pickup in leasing activity in recent weeks. In Portland, no significant absorption is reported but rents appear to have leveled off and some significant deals for downtown office space are under discussion. By exception, market fundamentals are flat in Hartford as business sentiment remains cautious amid uncertainty.

Around the region, investment sales activity is on the rise across most sectors, with multifamily still the most in-demand property class and retail second. Competition for well-leased multi-family properties in prime locations has intensified: financing terms are increasingly favorable and capitalization rates have fallen to as low as 5 percent in some cases. Respondents note a number of modest construction and development projects around the region, including retail construction and speculative (residential) land development in Portland, a significant number of multifamily projects in Boston, and health-care-related activity in Providence.

Boston contacts are moderately optimistic but do not expect growth to result in substantial net absorption during the next six to 12 months. Risk of further downward pressure on office rents in Boston's financial district continues, reflecting both high vacancy rates and a downward shift in the cost basis among properties recently sold at discounts. A Providence contact, while quite optimistic in the near term, sees some vacancy risks on the horizon in two to three years. Portland's outlook is more upbeat than in the last report, based on talk of growing investor interest and potential leasing demand. The outlook for Hartford remains uncertain and our contact is not willing to bet on robust growth in the near future.

Residential Real Estate

Home and condos sales in the First District declined again in September on a year-over-year basis. Contacts throughout the region continue to attribute the declines to the expiration of the tax credit, along with job insecurity and more general economic uncertainty. Respondents expect year-over-year monthly declines for the rest of the year and worry that 2010 sales will be lower than 2009. At the same time, the median price of homes and condos is edging up in most parts of the region. Some contacts say the rise in the median price is due to increased activity in higher-end properties, not to a broad increase in home prices. Inventory continues to climb throughout the region; most contacts see these increases as a positive development because the number of properties for sale has been very low. Contacts do not expect strong activity to return to the region's housing markets until consumer confidence improves.

SECOND DISTRICT--NEW YORK

The Second District's economy has continued to expand since the last report, with noticeable improvement in the labor market, while prices have remained stable. Non-manufacturing contacts overall report steadily improving business conditions, whereas manufacturing-sector contacts report a recent pullback in activity; even so, respondents in both sectors indicate that they continue to add workers, on balance, and plan to do so in the months ahead. Similarly, a major employment agency notes some pickup in hiring activity. General merchandise retailers report that sales have improved steadily in October and early November, while auto dealers continue to report fairly good sales results. Tourism activity in New York City has shown signs of picking up in recent weeks. Consumer confidence has also moved up modestly. However, commercial and residential real estate markets have been steady to softer since the last report. Finally, bankers report steady loan demand, tightening credit standards, and some increase in delinquency rates on home mortgage loans.

Consumer Spending

Retailers report that sales have picked up steadily since September: overall, sales were characterized as roughly on plan in October and ahead of plan through early November. One major retail chain attributed part of the recent pickup in sales to the arrival of cold weather in November, after an unseasonably mild October. A large mall in western New York State reports that traffic has been brisk and that customers—particularly from Canada—have been leaving with many shopping bags. A contact at another major mall in upstate New York notes that sales slowed in October and were down slightly from a year earlier but picked up in the first half of November. Most retail contacts in New York state indicate little, if any, discernible effect from the October 1st reinstatement of the sales tax on clothing priced under $110. Inventories are generally reported to be at favorable levels, and prices continue to be steady, though one large chain anticipates some increase in merchandise price pressures starting next spring. Most retail contacts indicate that they are hiring slightly more holiday-season workers than in 2009; one contact notes that there have been more applicants for these temporary jobs this year. Auto dealers in the Rochester area report that sales of new autos were up roughly 12 percent from a year ago in October and are running 5 to 10 percent ahead in November. Low inventories are no longer a problem, because auto production has recovered to a more normal level. Retail credit conditions have continued to ease, and wholesale credit markets have shown steady improvement.

Tourism activity in New York City has been strong since the last report. Manhattan hotels report that occupancy rates continued to hover around 90 percent in October and remained higher than a year ago in November; room rates continued to edge up since the last report and were running 7 to 8 percent ahead of a year ago. While leisure visits to New York City are described as steady and robust, business travel has strengthened steadily. Broadway theaters report a pickup in both attendance and total revenues in late October and early November: after a dip in September and early October, business is, once again, running ahead of a year earlier.

Consumer confidence, though still at low levels, has improved modestly since the last report. The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, PA) rose in September and October, reversing a decline in August. Similarly, Siena College's latest survey of New York State residents shows confidence rising to its highest level since May both upstate and in the New York City area.

Construction and Real Estate

Housing markets across the District have been steady to softer since the last report, with some of the ongoing weakness at the lower end of the market attributed to the mid-year expiration of the home-buyer tax credit. In general, prices have drifted down across much of upstate New York and in northern New Jersey since mid-year, while prices in New York City remained relatively steady. Buffalo-area Realtors report that the housing market weakened somewhat in October through early November, particularly for lower-priced homes; sales activity has slowed, and the supply of homes on the market has increased. Similarly, a contact in northern New Jersey reports that market conditions remain sluggish: sales activity remains low and is still largely composed of distress sales, and prices are still said to be edging down.

Activity in New York City's co-op and condo market has slipped by a bit more than the seasonal norm in October and early November, particularly at the lower end of the market, though a recent flurry of activity is reported at the very high end (homes in the range of $8 million or more). Prices remain stable across the spectrum. While the number of new condos under construction has declined modestly, there continues to be a substantial inventory of unsold, completed units. Manhattan's rental market has reportedly softened a bit since the last report. Rents remain stable, but landlords are, once again, offering concessions (such as one or more month's free rent), though these discounts are not as steep as in 2009. A substantial amount of new housing in the pipeline is likely to be offered as rentals.

Office markets across the District have been steady to slightly softer thus far in the fourth quarter. Asking rents held steady in Manhattan and slipped in northern New Jersey, Long Island and Rochester but rose modestly in Westchester and Fairfield counties and in Buffalo. Vacancy rates have been steady to modestly higher since the last report. Sales of commercial properties remain sluggish, and a contact in upstate New York reports that commercial construction activity remains at depressed levels.

Other Business Activity

A major New York City employment agency, specializing in office jobs, reports that the job market has picked up a bit since the last report, with some increase in hiring activity at both financial and legal firms; other areas, such as publishing remain sluggish. The pool of job applicants, though still large, appears to be shrinking a bit. More broadly, non-manufacturing firms in the District report increasingly widespread hiring activity, as well as business conditions generally; these contacts also remain optimistic about prospects for the early part of 2011.

On the other hand, manufacturing activity has weakened, on balance, as a number of firms saw slower activity and fewer contacts reported improvements. Yet these contacts continue to report that they are increasing employment, on balance, and they are increasingly optimistic about the near-term outlook. Also, manufacturing contacts indicate that they are currently holding somewhat higher cash balances than usual, and a sizable proportion of contacts indicate that they plan to increase cash holdings over the next year. Both manufacturers and other firms report moderate increases in prices paid but little or no change in their selling prices.

Financial Developments

Small to medium-sized banks in the District report steady loan demand across all categories, although they see some increase in the demand for refinancing. Respondents report a tightening of credit standards for all loan categories: the percentage of bankers reporting tightening credit standards ranged from 11 percent for residential mortgages to 18 percent for commercial and industrial loans. No banker reported an easing of credit standards in any of the categories. Bankers report narrowing spreads of loan rates over costs of funds for all loan categories—most notably in the commercial and industrial loan category. Respondents also indicate widespread decreases in the average deposit rate. Finally, bankers report rising delinquency rates for residential mortgages but little or no change in other categories.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has been varied across sectors since the last Beige Book. Manufacturers, on balance, reported increases in shipments and new orders in November. Retailers have been making year-over-year gains in sales. Motor vehicle dealers have also posted year-to-year sales increases. Third District banks reported practically unchanged loan volume outstanding since the last Beige Book. Residential real estate agents and homebuilders indicated that the recent sales trend has been downward. Contacts in the commercial real estate sector said market conditions remain soft. Service-sector firms reported that activity has been roughly steady in the past month. Business contacts indicated that prices of most goods and services have shown no change, although retailers noted recent increases in prices for goods ordered from foreign suppliers.

Most Third District business contacts foresee slow improvement ahead. Manufacturers forecast a rise in shipments and orders during the next six months. Retailers expect sales for this year's holiday shopping period to exceed sales for the same period last year. Bankers expect just slow growth in lending in the next few months. Contacts in residential real estate expect activity to move up slowly, at best, but contacts in commercial real estate do not anticipate a meaningful change from current soft conditions in the near future. Service-sector companies expect slow growth from now into next year.

Manufacturing

Third District manufacturers reported increases in shipments and new orders from October to November, on balance. However, the improvement was uneven among the region's major manufacturing industries. Increases in demand for their products was more common among makers of furniture, industrial materials, and testing and measuring instruments, but makers of construction-related goods continued to see flat or declining demand for their products. Manufacturers in general continued to report that the flow of new orders has been variable. One said, "You don't know from one week to the next what the workload will be." Another said, "Conditions continue to be choppy."

Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms surveyed in November, about half expect increases in new orders and shipments, and about one-fifth expect decreases. Capital spending plans among area manufacturers have increased somewhat in recent months, although many noted that implementation of new plant or equipment is primarily to replace obsolete equipment, increase efficiency, or meet pollution control requirements. Several firms said they will not expand production facilities until they get orders they are unable to fill with their current capacity.

Retail

Third District retailers generally reported small-to-moderate year-over-year increases in sales in October and early November. Gains appeared to be relatively greater for apparel than other product lines, according to area merchants. Store executives said discounting has been widespread to stimulate sales of fall and holiday merchandise, and the recent sales pace has mostly met expectations. “Consumers are definitely responding to low prices,” one contact said. Looking ahead, most of the retailers surveyed for this report said they expect sales to continue to move up through the end-of-year shopping period, but some noted that, due to discounting, they will have to sell more merchandise than last year to meet dollar-sales targets.

Third District auto dealers reported rising sales and improved profitability since the last Beige Book. Inventories were generally described as appropriate for the current sales rate. Dealers expect sales to rise until the end of the year, but some expressed concern that the sales pace might slip during the first quarter of 2011, after the better than expected results of 2010.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has been flat since the last Beige Book, with practically no change in any credit category. Bankers continued to report low demand for both consumer and business loans. Commercial bank officers generally indicated that credit quality measures have been roughly steady. However, one noted that “there is continued stress in the commercial real estate and construction portfolio.”

According to the Third District bankers surveyed for this report, the outlook is that there will be only slow growth in lending to both consumers and businesses in the months ahead. Although bankers in most parts of the District believe economic conditions are improving gradually, they do not expect a parallel rise in loan demand. And one banker expressed concern that economic recovery will come too slowly to reverse deteriorating financial conditions among some local firms.

Real Estate and Construction

In most parts of the Third District, residential real estate activity has slowed since the last Beige Book. Residential real estate agents generally indicated that sales of existing homes have been declining and that inventories have edged up. Most of the residential builders contacted for this report also said sales have been on a downward trend. Sales of higher-priced homes have been slower than sales of lower-priced homes in most areas. Home prices have been flat to down in most markets, although contacts noted that the rate of price decline has eased recently. Residential real estate contacts expect sales to remain slow until economic conditions improve. The widely shared view among agents is that “the real estate market will not come back until there are more jobs,” as one contact said.

Nonresidential real estate firms indicated that there has been little change in conditions in commercial and industrial markets since the last Beige Book. Contacts said that vacancy rates and rents have been nearly steady, although there have been increased reports of landlord concessions. Several contacts reported that tenants have been taking advantage of lower effective rents, resulting in increased leasing activity and relocations, but no increase in leased space. Some contacts noted recent signs of growing investor interest in apartment buildings and some Class A office buildings, but retail buildings continued to be out of favor. The pace of commercial construction remains slow, although there have been some recent increases in renovation and remodeling activity. Commercial real estate contacts expect current market conditions to persist. “Next year will be a lot like this year,” one contact said. Building owners and agents agree that a significant increase in demand for commercial and industrial space will not take hold until employment begins to grow more strongly.

Services

Service-sector firms gave mixed reports, but on balance activity has been roughly steady since the previous Beige Book. Contacts said the health care and information technology sectors were showing some growth, but service-sector activity related to real estate, construction, and finance was flat to down. Also, some firms that provide services to governments indicated that their clients were making less use of their services as part of overall budget tightening. Looking ahead, most of the service firms contacted for this report expect only slow growth. One said, “We don’t expect much improvement next year.” Another said, “We will have to look to new markets for growth.”

Prices and Wages

Reports from manufacturers since the last Beige Book indicated some increases in raw material costs, but mostly steady output prices. Goods mentioned as rising in price were food products, metals, and electrical equipment. Retailers generally noted that most wholesale costs and retail prices have been steady, but some contacts reported that foreign suppliers, especially in Asia, have raised the prices of many products being ordered now for delivery next year.

Business firms in the region reported no major changes in wages since the last Beige Book. Employers generally reported that they were not having difficulty filling positions at current compensation levels. However, some said they were becoming somewhat concerned that sufficient numbers of qualified workers will be more difficult to obtain when they do decide to increase staffing levels.

FOURTH DISTRICT – CLEVELAND

On balance, economic activity in the Fourth District grew at a modest pace during the past six weeks. Manufacturers reported some improvement in new orders and production. Car sales increased, while general retailing was flat to down slightly. Freight carriers saw a small rise in volume, and energy companies reported stable production. Residential and nonresidential construction remains sluggish. Demand for business loans showed some signs of a pickup, while consumer borrowing was weak.

Reports of rising payrolls in manufacturing, banking, and auto dealerships increased slightly since our last survey. Overall, staffing-firm representatives noted little change in the number of new job openings, with vacancies concentrated in the healthcare sector. Wage pressures continue to be contained. Apart from volatility in commodity prices, raw materials and product pricing were fairly steady.

Manufacturing

Reports from District factories indicated that new orders and production were either stable or rose modestly during the past six weeks. Production was higher on a year-over-year basis, with many contacts experiencing double-digit increases. Several manufacturers commented that opportunities continue to grow at a faster pace in offshore markets than domestically. In general, manufacturers are cautiously optimistic and expect at least modest growth during 2011. Steel producers and service centers reported that volume was either flat or improving, with shipments being driven by energy-related, auto, and heavy equipment industries. Two respondents commented that they are experiencing some difficulty filling orders due to capacity constraints and long lead times. Most steel executives we spoke with expect business activity to follow seasonal trends in the near term. Looking forward to the remainder of 2011, they anticipate modest growth at best. District auto production showed a moderate rise during October on a month-over-month and year-over-year basis.

Capacity utilization is trending up for some manufacturers and steel producers, while the majority said that utilization rates still remain below pre-recession levels. Inventories are balanced with incoming orders. Although there has been some increase in capital outlays, most producers are conservative in their planning. Several noted that new spending will be directed at their offshore facilities. Other than volatility in steel and commodity prices, the cost of raw materials has been relatively stable. Several manufacturers announced selective product price increases to reflect changes in steel, copper, and agricultural input prices. We heard a few reports that these adjustments are expected to become more widespread in 2011. About half of our contacts told us that they have expanded their payrolls slightly since our last report. Wage pressures are contained.

Real Estate

New home construction was generally flat at a low level during the past six weeks, with several builders reporting no sales. General contractors expect construction to remain sluggish going into the new year and their outlook for the remainder of 2011 is uncertain. Most new home sales are occurring in the move-up buyer categories. Spec inventories are intentionally being kept at low levels, and those who want to build have difficulty obtaining financing. A majority of our contacts reported lowering the list prices of their homes. Construction material costs have shown little movement since our last report. We have been hearing an increasing number of reports about subcontractors and building material suppliers going out of business. General contractors continue to work with very lean crews.

Discussions with nonresidential builders drew mixed responses. A majority of our contacts reported having less work than a year ago and seeing a slowdown in inquiries. Several builders characterized their backlogs as acceptable, but noted that they were down year-over-year. New projects are generally falling into the infrastructure category. The general consensus is for little change in business conditions in the near term. On balance, construction material prices have been stable. Two general contractors reported reducing their payrolls, while other builders said employment was steady. Subcontractors are still struggling and bidding at very competitive rates. Reports indicate that it is very difficult for subs to obtain credit.

Consumer Spending

Retail sales for the period from mid-September through mid-October were flat or down slightly when compared to the previous 30-day period. The exception was food retailing, where sales showed a modest improvement. When compared to year-ago levels, most retailers said that sales volume was similar or had increased. A few of our contacts noted that consumers have postponed buying cold-weather items. Expectations call for sales to improve somewhat through year's end, reflecting the holiday shopping season. Households remain price sensitive and tend to purchase items only as needed, focusing more on necessities. Several retailers saw modest price increases from their suppliers, which they passed through selectively to customers. Half of our contacts plan to increase capital budgets in 2011, mainly for new stores and warehousing. Hiring will be limited to temporary holiday workers.

Most auto dealers saw a pickup in new vehicle sales during October on a month-over-month basis. Looking forward, dealers expect sales to follow seasonal trends through the winter months. However, they anticipate that volume will be higher than the prior year's level. New car inventories rose during the past few weeks. Used vehicle purchases are flattening out since our last report. Little change in lending standards was reported, while credit pricing remains very competitive. We heard a few reports of incremental hiring at dealerships.

Banking

Bankers reported commercial loan demand was stable or showed modest growth since our last survey. Demand was driven primarily by companies in the energy, healthcare, and manufacturing sectors. Demand also came from firms seeking financing for mergers and acquisitions. On the consumer side, conventional loan demand remains weak, although several bankers reported that they are beginning to see early signs of growth. Consumer activity is strongest in indirect auto lending and home equity lines of credit. We heard a few reports that households are relying more heavily on debit cards and are bypassing credit, even if it means postponing a purchase. Interest rates for business and consumer credit moved by only a few basis points, with a slight bias to the downside. Most of our contacts said that the demand for residential mortgage refinancing remains strong, while new-purchase mortgage originations are weak.

Mortgage rates are stabilizing at historic lows. Core deposits continue to grow, with most of the growth occurring in nonmaturing products. Credit quality was generally characterized as either stable or showing a slight improvement, especially for business applicants. In total, delinquency rates are stable or trending down. However, delinquencies in some residential mortgage portfolios, though manageable, are either high or rising slightly. Several bankers reported that they have slowly increased their payrolls during the past few months, though some existing positions are being converted from full-time to part-time.

Energy

Reports indicate that oil and gas output from conventional wells was fairly steady during the past six weeks, with output expected to remain at current levels in the near term. Production from Marcellus shale was somewhat higher and is expected to continue to increase. Spot prices for natural gas are generally flat at a low level, which is putting downward pressure on capital spending. Oil prices continued on a slow upward trend. Coal production has been stable since our last report, with little change expected in the near term. However, one energy executive noted that international demand for coal is rising as an economic recovery in Europe builds momentum and traditional supply sources are being drawn to Asian markets. Spot and contract prices for coal were mixed but are tending to the down side. Other than a rise in fuel prices, equipment and material costs have been flat. Employment at energy companies has not changed recently.

Transportation

Freight transport executives reported that volume generally showed a modest increase during the past six weeks. Chemical shipments rose, while a decline was seen in apparel and building materials. Several carriers characterized their outlook as cautious, with some expectation for a slight drop in volume due to seasonal factors. Almost all of our contacts reported rising prices for fuel, with limited success at passing the increase through to customers. Capital outlays are expected to remain at relatively low levels until the pace of the recovery picks up. Although pent-up demand exists to replace aging equipment, high prices for new tractors and tight credit are limiting purchases. Two of our contacts said that they are now leasing equipment because of attractive rates. Wage pressures are beginning to emerge due to a growing problem with driver turnover and a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview

Fifth District economic activity increased at least moderately in most sectors since our last assessment. Manufacturing continued to receive upbeat news from contacts, with many reports of strengthening orders and shipments. Services firms reported mostly stable-to-improving demand, after several months of declines. In addition, bankers noted slight improvements in most areas of lending, and tourism picked up, led by gains in the Baltimore area. Labor markets experienced an increase in both temporary and permanent hiring, especially in the manufacturing sector. Harvests around most of the District were successful, and farm income projections were revised higher. On the other hand, there were a few weak indicators. Activity in both residential and commercial real estate markets was soft, although house-shopping traffic improved in some areas. Retail activity overall continued to contract, with declines of some big-ticket items. Price pressures were generally restrained.

Manufacturing

Manufacturing activity picked up in October and November after a slight easing in September. An auto-parts supplier in the District said that auto manufacturers continued to increase orders. He also mentioned that capital expenditures, which had previously been on hold, were recently approved. A packaging manufacturer reported strong demand, and a machinery equipment industry spokesman said that orders, led by autos and aerospace, have been rising this year from very low levels. Similarly, a custom fabricator reported a slight increase in incoming orders and anticipated a significant upswing in early 2011. A manufacturer of fuel pumps and dispensers described his sales as good this year, but feared that tough economic conditions will limit sales next year. Moreover, a plastics producer stated that, even though October was a high-volume month, he was not expecting further improvements until early next year. Survey contacts reported that raw materials and finished goods prices rose at a somewhat quicker pace than in our last report.

Retail

District retail sales generally declined in recent weeks, although pockets of strength were reported. Several department store managers reported disappointing sales since our last assessment and their outlook for the holiday season was restrained. However, in the days leading up to Black Friday, a few contacts reported an increase in foot traffic and sales. Big-ticket sales were generally soft, with mixed reports from car and light truck dealers. While an automobile dealer in South Carolina attributed falling sales to the high unemployment rate in his area, a central West Virginia dealer said that he had “a real good month.” A recent boat show in Maryland drew over 90,000 visitors; sales were reported as robust and financing at low rates was widely available. In addition, grocery sales grew more rapidly than a month ago, according to survey contacts, and an executive at a chain hardware store in central Virginia told us customer traffic remained steady, but the amount customers were spending increased. Inventories flattened over the last four weeks, according to most respondents in our November survey, and retail prices rose moderately.

Services

Business activity at service-providing firms stabilized or accelerated since our last report. Most owners and managers at restaurants across the District reported an uptick in revenues, and several investment professionals said business had rekindled at their firms. In Richmond, a contact at a financial services firm said his clients’ appetite for risk was returning. Even with improved client confidence, however, his firm was not able to increase profit margins. Education and healthcare contacts noted little change in revenues during recent weeks. “Steady, close-to-budgeted demand” for services was the report from an executive at a North Carolina healthcare system. A CPA in central West Virginia said the local economy remained “pretty stagnant,” but demand at his firm was steady. Prices at services-providing firms edged up slightly, according to survey findings.

Finance

Lending activity in the District continued to post modest gains from weak levels since our last assessment, but there were also many areas with no improvement. Refinancing continued to dominate activity in the mortgage market, although several bankers around the District cited marginal improvements in new home loans. However, most loans were for homes in the low price range and often associated with foreclosures or short sales. Several loan officers for large regional banks reported a pickup in consumer lending activity—mostly for home improvement or purchasing and repairing bargain-priced homes. A banker in the Baltimore area stated that commercial loan demand started to increase in recent weeks, noting that many loans were to support new business, and a lender in South Carolina provided equipment financing to several local manufacturers. Financing of new commercial construction remained dormant, but a banker in the Baltimore area cited a modest increase in condo and apartment construction loans. Credit quality continued to improve, according to most bankers, even as non-performing loans and loan losses remained above normal. However, a loan officer in the Richmond area noted that delinquencies were moving back to normal levels.

Real Estate

Indicators of real estate activity around the District were mixed during the last month. Most Realtors continued to report limited sales activity, but several indicated that consumers have started to shop for homes again. A Realtor in South Carolina stated that an increase in layoffs in recent weeks contributed to slow home sales. In central Virginia, a real estate agent reported that, while the number of contracts was down recently, foot traffic had improved and prices had stabilized—even at the upper-price range. A Realtor in the D.C., area described sales activity as “pretty good” (up markedly from a year ago). However, a real estate agent in Northern Virginia said that October was “a terrible month,” although sales in early November were showing modest improvement. Several agents noted that more sellers in the market were opting instead to rent their properties. A Baltimore area Realtor stated that military families moving into the area as part of BRAC-related relocations were often renting rather than buying homes, dampening anticipated home price increases. A contractor in North Carolina told of an appraiser who had so much business that he was “working seven days a week with no end in sight.”

Commercial real estate activity was generally weak since our last report, but property managers were becoming more optimistic about the near term. A Baltimore developer described commercial property demand as spotty, but he expected a pickup in demand from local “feds, meds, and eds.” A developer of residential complexes reported that his numbers have improved in recent weeks, but the volume of transactions remained extremely low. A commercial Realtor in North Carolina noted that rental rates were flat at low levels, but property owners were able to avoid making negative cash-flow deals. In contrast, the owner of an elevator repair service reported that businesses were spending again—partly to maintain safety standards, but also to modernize in anticipation of a pickup in business activity. A commercial architect said that he could now “see light at the end of the tunnel” and was able to proceed with several projects that had been on hold for well over a year. A contact in the D.C., area said that architectural firms were hiring again. Nonetheless, most contractors continued to report no speculative building, and a contractor in central Virginia said that his region had only a few closings for new construction (mostly government projects).

Labor Markets

Hiring activity picked up moderately since our last report, but employment agencies were uncertain whether the gains would continue into December. Several sources reported increased hiring of production and assembly workers. A supplier of ball bearings stated that his company recently started to hire, after postponing the decision over concern about the sustainability of improving demand. A machinery equipment industry spokesman reported that hiring was up, but mostly limited to filling empty positions. The tourism industry along the District’s east coast added employees, according to one contact, but mostly for temporary workers. A major retail chain store representative said that hiring activity had been ongoing, but most likely would be down in December when compared to a year ago. Several contacts at employment firms reported that demand for assembly line workers was somewhat stronger than a month ago, although the contacts were evenly split about whether the gains would continue into December. An agency manager in South Carolina expressed concern about a slowdown in hiring during the holiday season. Contacts continued to report that skilled workers were hard to find, but that wage pressures were subdued and little change was expected over the next few months.

Tourism

Assessments of tourist activity were mostly positive since our last report. A financial analyst reported that tourism in the Baltimore area was “robust” in recent months, and a port official there noted that Europeans were flying into Baltimore to take advantage of recently added cruise lines. A Myrtle Beach contact characterized tourist activity as somewhat stronger, compared to a year ago, which he attributed to increased weekend traffic. A manager at a mountain resort in Virginia also described tourist activity as somewhat stronger, which was due to great weather coupled with beautiful fall foliage. That contact also mentioned that the resort had attracted a more affluent crowd who normally spends more on food and recreation. Restaurants did better in October and November than in the summer months, and golf courses had more players than usual for the fall season. However, contacts from the Outer Banks of North Carolina and Virginia Beach reported little change in bookings in recent weeks. Several added that discretionary retail spending by tourists was down and vacationers were looking for exceptional deals at restaurants and recreation venues.

Agriculture

Dry and cool temperatures allowed Fifth District farmers to make steady progress in harvesting and in small grain plantings, and farm income projections increased since our last report. Corn harvested for grain was 100 percent complete in Maryland and was winding down in West Virginia, according to reports, with farmers in those states reportedly pleased with yields. The corn harvest in Virginia had neared completion, with local producers expecting low yields due to extremely dry weather. In both North and South Carolina, the cotton harvest was ahead of schedule. In addition, small grains had been planted and were off to a good start throughout the District. Results of our recent agricultural credit conditions survey indicated that income projections strengthened somewhat as a result of continued higher commodity prices and stronger demand. However, lower yields and crop quality were expected to have an impact on producers' financial positions.

SIXTH DISTRICT – ATLANTA

Summary

Reports from Sixth District business contacts indicated that economic activity rose modestly in October through mid-November. Retailers noted some increase in traffic and sales, and expectations for holiday sales were generally positive. Tourism related spending improved largely as a result of an uptick in international visitors and business travel. Realtors and homebuilders cited ongoing weakness in sales and construction. The District's office and industrial real estate markets softened as construction levels declined and vacancy rates rose. However, several contacts indicated that modest improvements were noted in leasing activity. Manufacturers reported continued increases in new orders and production. Credit conditions remained constrained and weakness in loan demand persisted. District labor markets continued to recover slowly, but businesses expressed cautiousness regarding adding full-time employees. Labor and material prices rose slightly, but most firms noted that they had little ability to pass costs through to customers.

Overall, most business owners suggested that the lack of robust sales growth was the major factor holding back their hiring plans and their demand for credit, although several also cited ongoing tax and regulatory policy uncertainty as additional constraining factors. Limited capital spending was focused primarily on required maintenance and efforts to increase efficiencies.

Consumer Spending and Tourism

Most retail stores and auto dealers reported that traffic and sales increased in October through mid-November. The outlook among retailers was positive and expectations for the holiday season were cautiously optimistic. Retailers noted that customers remain quite value conscious and responsive to price changes.

Tourism activity improved relative to a year earlier and the outlook was generally positive for the holiday season. Hotel occupancy rates rose in several of the District's major markets compared to last year and cruise bookings were strong. However, discretionary spending at both hotels and cruise ships was relatively soft. International visitors remained a major source of tourism growth in the District. Contacts also reported solid increases in business travel and group travel bookings.

Real Estate and Construction

Reports from residential brokers indicated existing home sales weakened in October through mid-November on a year-over-year basis. Many brokers, most notably in Florida, reported that the moratorium on distressed sales led to a stall in activity. District homebuilders indicated that new home sales growth and construction activity weakened further. Home prices remained below the year-earlier level, but declines moderated somewhat. Contacts noted downward pressure on prices across much of the region from distressed property sales. Despite weak buyer traffic, the outlook for sales growth over the next several months improved somewhat.

Nonresidential construction activity softened across the District. Contractors noted that the pace of commercial development was below the year-earlier level and backlogs remained low. Vacancy rates remained elevated across much of the region, although modest improvements were noted in leasing activity. Most contacts expect the commercial real estate market to remain weak over the next year.

Manufacturing and Transportation

District manufacturers indicated that the pace of new order growth moderated slightly, while production growth remained flat compared to the previous report. Several respondents noted plans to increase production in the short-term, however. District transportation companies continued to report improved freight volumes from year-earlier levels, although the pace of growth has moderated from earlier this year. Regional rail companies noted strong growth for metal and chemical goods, while shipments of motor vehicles and parts softened. The outlook among transportation firms was optimistic as rail companies noted benefits from rising international shipments of coal and farm products.

Banking and Finance

Banks continued to report little loan demand. Troubled real estate loans continued to increase, negatively affecting bank profitability. Overall, access to credit among small businesses slightly improved, although several noted ongoing difficulty obtaining credit on favorable terms. Reports indicated that credit standards for smaller firms eased more at community and regional banks than at large national banks. However, many small businesses indicated that although banks were willing to lend, the terms were unacceptable to the borrower. Firms related to construction and real estate experienced the most difficulty obtaining credit.

Employment and Prices

District labor markets continued to slowly recover in October through mid-November. Business contacts reported that they were waiting for clearer signals of improved business prospects before adding significantly to payrolls. Businesses that were hiring were doing so cautiously, and many noted that they were being selective in choosing the most productive and versatile applicants. The majority of businesses cited a strong preference for using part-time or temporary staff in response to an increase in sales, allowing for more efficiency and flexibility.

Business contacts expressed considerable uncertainty about cost pressures over the coming year. Most felt that any pressure from higher labor and materials costs would be largely absorbed by reductions in profit margins. Overall, businesses remained reluctant to pass higher input costs through to customers given the relative softness in sales and orders. However, some transportation and food service firms indicated they plan to raise some of their prices because of cost increases.

Natural Resources and Agriculture

Regional oil production remained above earlier levels as production from existing offshore platforms came online. Although drilling activity remains well below pre-oil spill levels, the number of rigs operating in the Gulf of Mexico has crept up since hurricane season ended. Contacts have noted some concern that the pace of drilling permit issuance continues to lag, which could weigh on future energy output in the Gulf.

Most District areas benefitted from improved weather conditions in late October and early November. The outlook for the region's key agricultural products was brightened by favorable market conditions. Strong global demand and tight supplies have particularly boosted soybean and cotton prices, recently reaching historic highs.

SEVENTH DISTRICT—CHICAGO

Summary

Economic activity in the Seventh District increased at a slightly faster pace this reporting period. Retail and manufacturing contacts were more optimistic about the outlook for the rest of the year and early 2011, while construction and financial contacts remained cautious in their assessment. Consumer spending rose moderately, and business spending continued to increase at a steady pace. Manufacturing production also increased, while construction was limited outside of highway and bridge work. Credit conditions were slightly improved. Cost pressures rose, but there was limited pass-through to downstream prices. Wage pressures remained moderate.

Consumer spending

Consumer spending was up moderately from the previous reporting period. Retail sales excluding autos increased in October and early November. Consumers continued to spend mostly on essentials, but contacts noted that discretionary and impulse spending were returning slowly. The best selling items again were those most heavily promoted and discounted like apparel, electronics, appliances, and home improvement goods. Retailers also noted greater optimism for the holiday shopping season, with several reporting that they recently had made later-than-usual orders of big-ticket items in anticipation of Black Friday. Auto sales also rose, aided by increased incentives. Auto dealers indicated that inventory had returned to more comfortable levels, although a few again cited a limited supply of stronger selling models.

Business spending

Business spending continued to increase at a steady pace from the previous reporting period. Capital spending on equipment and structures was little changed. Inventory rebuilding in manufacturing leveled off. However, heavy machinery rental fleets continued to expand, and higher-than-expected fall sales prompted retailers to expand inventories in advance of the holiday shopping season. Hiring was again mostly limited to manufacturers bringing on temporary workers. In contrast, a few manufacturing contacts also reported contemplating increasing the number of work shifts, a decision which would require hiring additional permanent employees. In addition, a staffing firm reported a modest increase in industrial temporary-to-permanent transitions. Outside of manufacturing, hiring in information technology, engineering, and healthcare remained strong; seasonal hiring in retail trade was greater than the prior year; and there was a small increase in demand for temporary office and clerical workers.

Construction/real estate

Construction activity was limited in October and early November. Elevated levels of unsold homes continued to be a drag on new residential construction and home prices. Home builders reported only a modest improvement in sales, with showroom traffic weak but conversion rates increasing. The availability of mortgage financing, particularly for condominiums, remained a constraint for homebuyers, although lower mortgage rates led to an increase in refinancing. Residential development of new properties was minimal, as builders were instead concentrating their work on existing distressed properties. Private nonresidential construction was again subdued, although contacts reported a small increase in industrial projects. Public construction, driven by highway and bridge work, remained strong.

Manufacturing

Manufacturing production continued to improve through October and early November. Contacts generally expressed a very positive outlook for manufacturing, pointing to recent indications of demand firming into early 2011. The fabricated metals, automotive, and heavy equipment sectors were again strong sources of growth in manufacturing. Steel production softened recently, but contacts noted that service center inventories remain lean and that order inquiries for January delivery had accelerated in recent weeks. Orders were also reported to be on the rise for metal fabricators in the automotive, oil and gas, and aerospace industries. Contacts in the automotive industry were relatively upbeat, expecting auto sales to continue to strengthen into 2011 with the retail segment gaining momentum. Freight tonnage and new orders for heavy trucks increased, with strong demand expected next year to replace an aging fleet. Heavy equipment manufacturers reported continued strength in the demand for earth-moving equipment abroad and a recent increase in domestic activity. In contrast, activity was mixed for manufacturers with ties to residential housing. Shipments of construction materials decreased, while shipments of appliances increased in advance of Black Friday promotions.

Banking/finance

Credit conditions improved from the previous reporting period. Fierce competition for high-quality borrowers was indicated to be leading to aggressive terms and structures for business credit, although core business loan demand remained weak. In contrast, banking contacts reported an increase in demand for refinancing, merger and acquisition lending, and in agribusiness for working capital. Commercial real estate credit conditions were slightly improved, with CMBS issuance increasing and bank lending for distressed property investment edging up. Consumer lending also picked up a little in October and early November, although contacts worried that the weak labor market and potential end of extended unemployment insurance benefits would limit consumer spending in the coming months. Loan quality improved, increasing bank earnings, but contacts anticipated only modest asset growth in 2011 as business and household deleveraging was expected to continue.

Prices/costs

Cost pressures increased from the previous reporting period, but limited pricing power continued to constrain pass-through to downstream prices. Manufacturing contacts cited increases in industrial metals prices like copper, iron ore, and scrap steel; and mill lead times were also said to be rising. Energy prices were mixed. Oil prices moved up, but natural gas prices held at low levels with record storage and a forecast for a warmer-than-normal winter. Retailers also reported wholesale price increases, but most were accepting lower profit margins rather than attempting to pass them along to consumers. Wage pressures again increased only modestly.

Agriculture

Farm earnings were boosted by an early and large harvest. The District harvest should be the third largest ever for corn and the second largest for soybeans. Soybean yields set a record for the District.

Corn yields were less than expected in Indiana, Illinois, and Iowa, but above average in Michigan and Wisconsin. This year’s corn crop was of a higher quality. The new corn has been blended with last year’s poor quality crop; grain elevators have been able to sell the blended crop, clearing out storage space. In addition, the low moisture content of harvested corn plus low natural gas prices have kept drying costs to a minimum. Dry weather allowed more time for field work compared with a year ago, and there were reports of shortages of fertilizer and equipment parts due to earlier-than-usual preparations for next year’s crop. Prices for corn, soybeans, milk, hogs, and cattle were all above the levels of a year ago, particularly so for corn. Even with higher feed costs, margins for livestock producers remained positive.

EIGHTH DISTRICT—ST. LOUIS

Summary

Reports from contacts in the Eighth District have been mixed since our previous survey. Manufacturing activity has continued to increase, while activity in the services sector has declined. Retail sales in October and early November decreased compared with a year ago, while auto sales increased over the same period. Home sales have declined across the District, while commercial and industrial real estate market conditions have been mixed. Lending at a sample of large District banks was mostly unchanged over the three-month period ending in October.

Consumer Spending

Survey respondents indicated that retail sales in October and early November were down, on average, over year-earlier levels. About 54 percent of the retailers saw decreases in sales, while 42 percent saw increases and 4 percent saw no changes. About 39 percent of the respondents noted that sales levels met their expectations, 50 percent reported that sales were below expectations, and 11 percent reported sales were above expectations. Higher-priced items continued to be weak sellers. About 58 percent of the contacts noted that inventories were at desired levels, while 29 percent reported too-high inventories and 13 percent reported too-low inventories. The sales outlook among the retailers for the rest of the year was positive. About 61 percent of the retailers expect sales for the rest of the year to increase over 2009 levels, while 26 percent expect sales to decrease and 13 percent expect sales to remain unchanged.

Car dealers reported that sales in October and early November were up, on average, compared with year-earlier levels. About 54 percent of the car dealers saw increases in sales, while 29 percent saw decreases and 17 percent saw no changes. About 29 percent of the car dealers noted that used car sales had increased relative to new car sales, while 8 percent reported the opposite. Also, 20 percent reported an increase in low-end vehicle sales relative to high-end vehicle sales. Roughly 17 percent of contacts reported that their inventories were too low. A similar number of contacts reported that inventories were too high. The sales outlook among car dealers for the rest of the year was also positive. About 58 percent of the car dealers expect sales for the rest of the year to increase over 2009 levels, but 29 percent expect sales to decrease. The remaining 13 percent expect sales to be similar to last year's.

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 or reduce operations. Firms in the boat, sanitary paper product, primary metal, adhesive, textile, and automobile parts manufacturing industries reported plans to expand existing operations and hire new employees. Contacts in the plastic materials and resin, fabricated metal product, automobile parts, and refrigerator and freezer manufacturing industries reported plans to open new facilities in the District as well as hire new employees. In contrast, firms in the wire product, air conditioner, motor, and container manufacturing industries announced plans to decrease operations and lay off workers.

Services sector activity has declined since our previous report. Many contacts reported plans to decrease operations and lay off workers in the near future, while a smaller number of contacts reported plans to open new facilities and expand operations. Contacts in the architectural, government, education, gambling, transportation, and hotel services industries reported plans to decrease operations and lay off workers. Additionally, a firm in the entertainment industry announced plans to close its facility and lay off workers. In contrast, contacts in the health care, government, and business support services industries announced plans to expand existing operations and hire new employees.

Real Estate and Construction

Home sales declined throughout most of the Eighth District. Compared with the same period in 2009, September 2010 year-to-date home sales were down 7 percent in St. Louis, 1 percent in Little Rock, and 4 percent in Memphis, but increased 8 percent in Louisville. September 2010 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2009. Permits increased 14 percent in Little Rock, 10 percent in St. Louis, and 14 percent in Memphis, but decreased 2 percent in Louisville over the same period.

Commercial and industrial real estate market conditions throughout the District continued to be mixed. Compared with the second quarter of 2010, third-quarter 2010 industrial vacancy rates increased in Little Rock and Louisville but decreased in Memphis and St. Louis. During the same period, suburban office vacancy rates increased in Little Rock but decreased in Louisville and St. Louis. In Memphis, suburban office vacancy rates remained the same. The downtown office vacancy rates increased in Louisville and Memphis but decreased in Little Rock and St. Louis. Commercial and industrial construction was slow across most of the District. Contacts in St. Louis and northeast Arkansas reported that the pipeline for commercial construction projects is dry. A contact in south-central Kentucky reported that commercial construction is stable, but still not at the same level as recent years. A contact in southern Indiana noted a few industrial development projects. A contact in Louisville reported that speculative construction remains hampered by the lack of financing and economic uncertainties.

Banking and Finance

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

Agriculture and Natural Resources

Lower-than-average rainfalls and warmer temperatures expedited the completion of the corn, soybean, sorghum, and cotton harvests in the Eighth District. However, dry conditions resulted in a 41 percent to 89 percent reduction from last year in the level of adequate and surplus topsoil moisture levels.

By early November, states in the Eighth District had planted at least 13 percent more winter wheat in comparison with the average levels planted by this time during 2005-09, and at least 70 percent of the current winter wheat crop in the District was rated in fair or better condition.

NINTH DISTRICT—MINNEAPOLIS

Since the last report, the Ninth District economy grew at a firm pace. Consumer spending, tourism, services, manufacturing, energy, mining and agriculture saw increases. Commercial construction was mixed; residential construction decreased. Meanwhile, commercial real estate was weak, and residential real estate activity decreased. Labor markets showed some signs of strengthening, but wage increases were generally modest. Overall prices remained relatively level.

Consumer Spending and Tourism

Consumer spending increased since the last report. A major Minneapolis-based retailer reported that same-store sales in October were almost 2 percent higher than a year ago. Total September sales at a Minneapolis area mall increased 9 percent from a year ago, and early November traffic was steady, according to the mall manager. September sales at a North Dakota mall were up 6 percent compared with a year earlier, and recent traffic levels were strong, particularly on Veterans' Day. Luxury car dealerships in the Minneapolis-St. Paul area reported strong sales during the past few months. According to the University of St. Thomas Holiday Spending Sentiment Survey, household spending on holiday gifts is predicted to increase a surprising 6.8 percent in the Minneapolis-St. Paul area from last year. Preliminary results of the Minneapolis Fed's business outlook poll indicated that 30 percent of respondents expect consumer spending to increase in their communities in 2011, while 20 percent expect spending to decrease. In last year's poll, 18 percent expected increases in consumer spending, while 49 percent expected decreases.

Tourism activity increased. Minnesota deer hunting licenses sold through mid-November were up 2 percent from the same period a year ago. In South Dakota, nonresident small game hunting licenses sold through October were up 1 percent from the same period a year ago.

Construction and Real Estate

Commercial construction was mixed across the District. In the Minneapolis-St. Paul area, commercial developers said activity was at a standstill. In contrast, the value of October commercial permits in Fargo, N.D., nearly doubled from low levels the same month a year earlier, while permits in Sioux Falls, S.D., increased 10 percent. Residential construction slowed. October permits in the Minneapolis-St. Paul area fell 13 percent in value from the previous October, while the number of permitted units increased. Permits fell slightly in value in Sioux Falls and were roughly flat in Fargo in October from a year earlier. In contrast, October permits increased by nearly a third in Rochester, Minn.

Commercial real estate remained weak. Vacancy rates in Minneapolis-St. Paul were near record levels for office and industrial space, and very few large transactions were noted. A commercial real estate broker in Fargo described activity there as “slow and steady,” with few purchases but some recent large leasing deals. Residential real estate activity dropped due in part to problems closing transactions for bank-owned properties. October pending sales in Minneapolis-St. Paul fell 36 percent from the previous year, while inventories increased and prices were flat. Sales decreased slightly in Sioux Falls, but average prices increased.

Services

Professional business services firms are optimistic about economic activity. Based on results from the business outlook poll and the business confidence survey, respondents from the services sector expect increased sales and capital investment in 2011. An information technology consulting firm expects to double its workforce over the next year due to unexpectedly robust demand.

Manufacturing

Manufacturing output was up since the last report. An October survey of purchasing managers by Creighton University (Omaha, Neb.) showed increases in manufacturing activity in Minnesota and South Dakota, and slight increases in North Dakota. Preliminary results of a November manufacturers survey by the Minneapolis Fed and the Minnesota Department of Employment and Economic Development indicated that manufacturing activity increased in 2010 from 2009 and that this trend is expected to continue through 2011. Based on results from the business outlook poll, manufacturers expect increased sales and capital investment in 2011.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Mid-November oil exploration activity increased since early October. Wind energy is expanding across the District, but at a slower pace than a year ago. Strong prices were noted for District mining commodities, and District mines were operating at near capacity. In Minnesota, October iron ore production increased slightly from September.

Agriculture

Agricultural activity saw large harvests and solid prices. Because of nearly ideal weather conditions, the harvest was completed early. Large yields and production were noted for most district crops. The U.S. Department of Agriculture raised its price estimates for corn and soybeans. The Minneapolis Fed's third-quarter (October) survey of agricultural credit conditions indicated that most lenders expect overall agricultural income and spending to be higher in the fourth quarter.

Employment, Wages and Prices

Labor markets showed some signs of strengthening. A semiconductor firm recently announced plans to hire 300 more employees in Minnesota as part of a factory expansion. Employment gains were also reported in Great Lakes grain shipping. A representative of a temporary services firm noted that it is becoming more difficult to find talented workers in information technology, skilled trades and health care. In the Upper Peninsula, a manufacturer noted difficulty finding technical and welding workers. According to the business outlook poll, 34 percent of respondents expect to increase employment at their own firms during 2011, while 8 percent expect decreases. In last year's poll, 14 percent of respondents expected to increase staff, while 45 percent expected to lay off workers. In contrast, a Minnesota wind tower maker laid off 110 workers, and an information management firm will lay off 60 workers. A health insurance company in Fargo was laying off 63 people.

Wage increases were generally modest. A contact in the information technology sector said that he expects continued depressed wage levels in software development. In contrast, pressure on wages in oil-producing areas of western North Dakota and eastern Montana had some fast food restaurants offering as much as $13 per hour with signing bonuses.

Prices remained relatively level with some exceptions noted. Mid-November Minnesota gasoline prices were about the same as early October, but diesel fuel prices increased. A Minnesota-based food producer recently announced price increases for some of its cereals and baking products due to increased commodity and grain expenses. A bank director noted that fertilizer prices have increased over the past few months.

TENTH DISTRICT - KANSAS CITY

The District economy strengthened in October and early November, despite headwinds from the residential and commercial construction sectors. Additional gains in consumer spending boosted optimism for holiday sales among retailers and auto dealers. With moderate gains in October and November, manufacturing plant managers expected production activity and new orders to rise further with a pick-up in export activity. Energy and agricultural activity rose robustly with strong demand, low inventories, and a weaker dollar lifting commodity prices. In contrast, residential and commercial construction remained weak, although commercial real estate sales and vacancy rates were expected to improve in coming months. Banking conditions remained stable with more District bankers expecting improvements in loan quality. Despite higher raw material prices, wholesale and retail prices held steady. Wage pressures remained subdued, though some firms were hiring for seasonal and specialized labor.

Consumer Spending

Consumer spending improved further in October and November, and contacts were optimistic about future sales heading into the holiday season. District retailers reported stronger sales with limited discounting on merchandise. Contacts indicated an uptick in durable goods sales, especially appliances, while sales of luxury items were slow. After declining in the last survey period, auto dealers reported a slight improvement in sales, especially for trucks and used cars. Dealers anticipated demand would continue to strengthen through year-end, and some planned to hire sales staff and service technicians. Restaurant traffic was up, while the average check amount declined. With the end of the summer travel season, average room and occupancy rates edged down at District hotels, but tourism activity was stronger than expected.

Manufacturing and Other Business Activity

After rebounding in the last survey period, District manufacturing activity continued to expand, and many firms expected further growth in the next six months. While production levels varied across industries, some of the strongest gains were at food, fabricated metal, and electronics manufacturers. In general, new orders, shipments, and production activity strengthened in recent weeks, contributing to rising order backlogs and shrinking finished goods inventories. In the next six months, plant managers expected production, shipments and orders, especially for export, to strengthen further. In addition, more factory managers planned to increase staff or make capital purchases in coming months. High-tech firms also reported a rise in sales that was expected to continue through year-end. After slowing in the last survey period, activity in the transportation sector stabilized and some firms noted a shortage of qualified drivers.

Real Estate and Construction

Residential and commercial construction remained sluggish in October and November, while commercial real estate sales and vacancy rates were expected to improve in coming months. After contracting with the end of the homebuyers tax credit program, a few District homebuilders noted a slight uptick in housing starts. Still, District home prices edged down and sales continued to fall heading into the typical winter lull in home buying activity. District contacts noted that the starter home market remained active, but long lead times for selling mid- and upper-priced homes were boosting inventories and limiting “move-up” opportunities. Mortgage loan activity rose as homeowners refinanced existing mortgages to lower payments and shorten terms. Commercial construction activity declined and was expected to remain weak over the next three months. District commercial real estate contacts reported little change in vacancy rates, absorption rates, and prices. Some firms, however, reported an uptick in sales and expected vacancy rates to edge down in coming months.

Banking

Bankers reported stable loan demand, increased deposits, and an improved outlook for loan quality in the recent survey period. Overall loan demand continued to hold steady as demand for commercial and industrial loans, commercial real estate loans, and consumer installment loans remained stable. In contrast, bankers reported stronger demand for residential real estate loans. Compared to the previous survey, credit standards remained unchanged in all major loan categories. Loan quality was essentially unchanged compared to one year ago. Bankers, however, expected loan quality to improve over the next six months. Deposits, especially for transaction accounts and savings accounts, increased after having been flat since late last year.

Agriculture

Agricultural conditions improved since the last survey period. Favorable weather conditions across the District facilitated an early corn and soybean harvest with yields less than original estimates but slightly better than their five-year average. The winter wheat crop was progressing normally. Crop prices continued their steady climb through the fall harvest, boosting incomes for crop farmers but raising feed costs for livestock producers. Farmland values and cash rental rates strengthened further with higher farm incomes and robust demand for good quality farmland from both farmers and non-farm investors. Farm operators also increased spending on farm equipment and grain storage bins. Demand for farm operating loans was steady, and agricultural bankers reported ample funds were available for qualified borrowers at historically low interest rates.

Energy

District energy activity continued at a robust pace in October and November. The number of active drilling rigs in the District rose further, primarily due to natural gas expansion in Oklahoma and New Mexico. Producers expected drilling activity to remain elevated over the next three months; however some firms reported that equipment shortages, difficulty finding qualified labor, and availability or cost of financing were constraining drilling activity. District contacts anticipated a modest increase in natural gas prices as the winter heating season approached. Crude oil prices were also expected to strengthen with rising demand and a weaker dollar. After surging in the last survey period, Wyoming coal production continued apace. With higher ethanol prices, profits at ethanol plants held steady despite higher corn prices raising operating costs.

Wages and Prices

Prices paid for raw materials rose further in October and November, but selling prices and wages generally held steady. District manufacturers reported higher raw materials prices and expected additional increases in the next six months. They also expressed a limited ability to pass on higher input costs to current finished goods prices. However, more factory managers expected to receive higher finished goods prices over the next six months. Restaurants paid more for food, but kept menu prices stable. After rising in the last survey, prices for building materials held steady. Though a limited number of firms were hiring, primarily for specialized labor or seasonal workers, few were raising wages to attract qualified applicants. Wage pressures were expected to remain subdued through the end of the year.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a modest pace over the past six weeks. Activity in the energy sector strengthened, and transportation services and staffing firms reported steady but solid demand. Retailers said apparel sales were slow due to unseasonably warm weather, while reports from the manufacturing sector were mixed. Activity in the housing market remained sluggish but conditions improved slightly in commercial real estate. Overall lending conditions were largely unchanged. Most respondents expect slow growth in the near term.

Prices

Selling prices and fees held steady at most responding firms due to competition and low sales activity, but there were some reports of increases. Small parcel shipping prices rose slightly while large parcel shipping prices increased sharply, according to contacts. Fabricated metals producers noted selling prices edged up in response to higher steel prices and primary metals manufacturers reported price increases were becoming necessary to offset higher cost of aluminum and other industrial metals. Agricultural respondents said crop prices increased across the board, and staffing firms reported upward movement in billing rates. Improved demand has enabled railroads to raise prices across various business units.

The price of crude oil rose moderately on stronger demand from China and a weaker dollar. On-highway prices of both diesel and gasoline increased. Natural gas prices remained weak as mild weather, record-high inventories and forecasts for a normal winter put downward pressure on prices. Solid demand, tight supplies, and multiple plant outages led ethylene producers to push through a 4 cent increase in contract prices for October, and spot prices rose sharply in response.

Labor Market

Employment levels held steady at most responding firms, and there were scattered reports of hiring. Staffing firms continued to report strong hiring activity in the region, and noted that they were adding workers in response. Some contacts in the airline, transportation services, automobile sales and transportation manufacturing industries added workers, and retailers were starting to ramp up hiring for the holiday season. Layoffs remained limited. Wage pressures were minimal, with the exception of reports of higher wages in the airline industry.

Manufacturing

Demand for construction-related products was flat over the past six weeks, but a few manufacturers said sales rose due to an uptick in multifamily housing activity. Contacts expect conditions to remain weak or improve slightly in 2011 due to continued weakness in residential and commercial real estate. Fabricated metals producers saw a sharp increase in demand over the past month due to seasonal factors and government-related project work.

Most high-tech manufacturers said growth in orders and production continued at a much slower pace than in the first half of the year. Sales of some consumer products such as personal computers and laptops slowed, but demand for gaming products and smart phones remained strong. Several respondents expressed concern about reduced demand from the public sector as governments at all levels were faced with large revenue shortfalls. Still, most respondents expected conditions to remain stable for the next three months.

Demand for paper products held steady. Food manufactures said growth in orders was stable over the reporting period, and the three-month outlook for sales was positive. Trailer manufacturers reported a slowdown in demand. Contacts in aircraft parts distribution and manufacturing saw an increase in demand due to higher utilization of aircraft fleets and deferred maintenance work.

Demand for petrochemicals was solid. Ethylene and polyethylene producers reported that domestic demand increased moderately, and export demand stayed strong—driven by cheap natural gas versus relatively expensive oil and a weaker dollar. Domestic orders for PVC used in residential and commercial construction remained depressed, but exports were strong, according to contacts. Demand for petrochemicals used in manufacturing, alumina, pulp and paper improved. Refiners said conditions remained weak. Demand for oil products continued to decline and refiner margins were being squeezed by the rise in oil prices. Refinery utilization rates stood just above 80 percent, down from 90 percent this summer.

Retail

Eleventh District retail sales grew modestly, despite unseasonably warm weather that impacted apparel sales for much of the reporting period. In recent weeks, however, clothing retailers noted sales improved as temperatures fell to more normal levels. Two large retailers said that their sales in Texas outperformed those nationwide. Inventories increased slightly due to the warm weather and some seasonal buildup. The retail environment remains extremely competitive, and contacts say they still have to lure consumers with promotions. Expectations are for the holiday shopping season to yield moderate year-over-year sales increases. Contacts expect continued improvement in 2011, although most expect the pace to be slow to moderate.

Automobile sales were slightly weaker over the reporting period, by more than normal seasonality would suggest. Inventories rose, but remain at healthy levels, according to contacts. A typical slowdown in sales is expected heading into the holiday season, but the outlook for next year is cautiously optimistic, with most contacts predicting modest growth in sales.

Services

Staffing firms reported steady demand, and noted that activity was stronger than expected. Demand continued to be broad-based, with particular strength reported for oil field operations, administrative and professional services, plastics and steel manufacturing, and automobile-related positions. Direct placements, which had been subdued so far this year, increased during the reporting period. Sustained high levels of demand continued to boost the near-term outlook.

Accounting firms said some increase in consulting and merger and acquisition work has kept demand stable. Uncertainty regarding impending tax legislation continued to constrain demand for transactional services, but contacts were generally optimistic about year-end earnings. Demand for legal services remained soft. The only area of increased activity is mergers and acquisitions. Legal firms say they are in a better position than last year, but remain cautious in their outlooks.

Transportation services demand was positive. Intermodal transportation firms noted a wide-spread increase in cargo volumes was buoyed by demand from international clients. Railroad contacts said continued solid gains in volumes boosted revenues. International container trade volumes rose slightly during the past four weeks, and contacts expect a modest pickup in container traffic next year. Firms that ship small parcel goods said growth in volumes flattened during the reporting period, but remained above year-ago levels. Airline traffic was steady over the past six weeks. Contacts noted that conditions are much better than a year ago, and the outlook is for modest growth in the near term.

Construction and Real Estate

Housing markets remain sluggish. Builders said sales weakened slightly in October after some firming in August and September that followed the homebuyer tax-credit drop off. While entry-level builders were said to be struggling, builders in the move-up price range have weathered the post tax-credit conditions better, according to contacts. Realtors also said the higher end of the market is selling better, a reversal of the late 2009 and early 2010 trend. Prices were up slightly from year-earlier levels. Respondents said lenders still require a 20 percent down payment in most cases, which may be more difficult for the entry-level homebuyer. Outlooks are for sales and building activity to remain slow in the near-term.

Apartment demand continued to rise steadily during the reporting period, and occupancies edged up. Rents are moving up, according to contacts. Construction activity remains low by historical standards, but it has picked up slightly in recent weeks. Investment activity for multifamily properties has risen since the last report.

Office leasing continues to edge up, which is “giving people a little more confidence,” according to contacts. Respondents in the industrial sector also noted increased lease deals, but said rents are near historic lows. Excess space and tight credit conditions have limited nonresidential construction. Investment activity remains subdued, but contacts say recent signs of economic improvement should enable more risk-taking in the near term.

Financial Services

Financial firms reported a slight pickup in demand for selected loan types and a continued tapering off for others, noting that demand remained very price sensitive. Consumer loan growth was modest, but dependent on low rates. Demand for commercial and industrial loans increased, although real estate loan demand continued to decline. Overall credit quality was stable; however, mortgage delinquencies and mortgage bankruptcies remained elevated. Financial contacts noted continued pricing pressure, particularly for consumer and good-quality business loans. Deposits were stable. Outlooks improved modestly, but contacts anticipate loan growth to remain sluggish because of economic and public policy uncertainties, as well as borrowers' poor credit ratings.

Energy

The Eleventh District rig count rose strongly over the past six weeks. The disparity between oil and natural gas prices continued to drive the trend toward more oil-directed drilling. U.S. land drilling is the strongest and most profitable segment of the industry, especially activity tied to horizontal drilling. Contacts expect the overall rig count to level off or increase at a slower pace through year-end as the decline in dry natural gas activity is not being offset by increased oil-directed drilling. Producers are interested in returning to the Gulf now that the moratorium is over, and are working their way through the new regulations and their cost implications. Service companies are maintaining the skills and capacity to go back to the Gulf, but do not expect it to happen before early next year.

Agriculture

Topsoil moisture was short in several parts of the District, and moderate drought conditions prevailed in East Texas and along the Rio Grande. Ranchers were concerned that lack of rainfall was hampering winter grazing and hay production. Higher grain prices boosted margins for farmers but increased feed costs for livestock producers. Cotton prices were at record-high levels, and estimates for Texas cotton production put this year's crop near historic highs for the state. Demand for agricultural products remained strong, with particularly robust export demand for cotton and beef.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to edge up during the reporting period of mid-October through mid-November. Despite rising prices for selected commodities, price increases for final goods and services remained quite limited, and upward wage pressures were largely absent. Sales of retail items and services rose a bit further. Manufacturing activity in the District continued to expand on net. Sales of agricultural products were robust, and demand strengthened for providers of energy resources. Housing demand stayed subdued, and demand for commercial real estate remained weak but showed signs of life in a few areas. Financial institutions reported that lending activity was largely unchanged.

Wages and Prices

Price inflation was limited for most items. Contacts noted price increases for an assortment of raw materials, such as oil, wheat, and aluminum, and for selected products sourced from China, such as apparel. However, final prices for most retail items and service categories continued to be restrained by weak demand and widespread competition.

Upward wage pressures were virtually nonexistent, held down by minimal demand for new employees and high unemployment in most parts of the District. However, contacts continued to point to significant increases in employee benefit costs, particularly for health care. Hiring plans for permanent employees remained quite limited in most sectors, although a few reports pointed to expectations for a larger surge of temporary holiday hires than in the past two years.

Retail Trade and Services

Retail sales rose further on balance but remained lackluster overall. Modest improvements in sales were reported for traditional department stores as well as discount chains, with the strongest gains again noted for moderately priced home and garden products. Sales were characterized as flat to down for grocers and for retailers of furniture and major appliances. Contacts generally anticipate that holiday season retail sales will exceed their levels from last year, with expected nominal gains ranging from 2 to 3 percent up to 5 to 7 percent. Reports on holiday inventories were mixed, with some contacts reporting continued lean inventories and others noting slightly elevated levels. New domestic and imported automobile sales improved further, spurred largely by rising demand for light trucks and vans. Sales of used vehicles were strong, but contacts noted that supply remained tight. Retail contacts reported that capital spending was quite limited and focused largely on labor-saving technologies.

Demand for services firmed further. Sales expanded for providers of technology services, prompted in part by a focus on efficiency-enhancing software investments in most sectors of the economy. Demand for professional services, such as legal and accounting, held largely stable. Providers of energy services reported further demand growth from households and businesses. Travel activity improved further in much of the District, spurred by growth in business travel as well as tourism. Visitor volumes and hotel occupancy rates showed solid gains in Hawaii but were flat to down in San Diego.

Manufacturing

District manufacturing activity posted further gains during the reporting period of mid-October through mid-November. For makers of commercial aircraft and parts, growth in new orders for some aircraft combined with an extensive backlog to keep production rates at or near capacity. Demand grew further for manufacturers of semiconductors and other technology products, with reports highlighting rising sales, high levels of capacity utilization, and plans for expanded capital spending by some companies in the near term. Demand continued to tick up for metal fabricators, although production remained well below normal. Despite modest improvements in demand, elevated inventories caused petroleum refiners to further reduce their production activity. Sales remained anemic for manufacturers of wood products.

Agriculture and Resource-related Industries

Demand was robust for agricultural producers and improved on net for natural resources used for energy production. Final sales and orders rose for assorted crops and livestock products, and, other than price increases for livestock feed, reports indicated little change in input costs. Reductions in overseas yields due to earlier unfavorable weather conditions combined with the lower value of the U.S. dollar to boost sales for domestic producers of corn, wheat, and other food grains. Oil extraction activity rose somewhat, as robust demand growth from emerging markets along with modest improvements in domestic demand pushed up the price of oil. Extraction activity for natural gas was largely steady despite an ongoing decline in its price.

Real Estate and Construction

Activity in residential and nonresidential real estate markets generally remained unchanged at very low levels. The pace of home sales was mixed across areas of the District but appeared stable to down slightly on balance, despite improved affordability arising from low mortgage rates and past price declines. New home construction remained at exceptionally low levels, as sluggish sales and continued high rates of foreclosure caused the availability of new and existing homes to remain elevated. Demand remained weak overall in commercial real estate markets, and tenants in some areas continued to receive rent reductions and other concessions. However, further increases in leasing activity were noted for some major markets in the District, such as for technology companies in San Francisco, along with rising market values and improved availability of financing for investment transactions.

Financial Institutions

District banking contacts reported that loan demand was largely unchanged on balance compared with the previous reporting period. Demand for commercial and industrial loans inched up in some areas but remained restrained by businesses’ cautious approach to capital spending. On the consumer side, loan demand appeared to weaken slightly, which contacts attributed in part to households’ desire to deleverage. Lending standards remained relatively restrictive for business and consumer lending, and a few contacts pointed to ongoing struggles with credit quality for some banks.