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Summary of Commentary on ________________________

Current Economic Conditions

By Federal Reserve District

August 2014

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

AUGUST 2014

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic activity has expanded since the previous Beige Book report; however, none of the Districts pointed to a distinct shift in the overall pace of growth. The New York, Cleveland, Chicago, Minneapolis, Dallas, and San Francisco Districts characterized their growth rates as moderate; Philadelphia, Atlanta, St. Louis, and Kansas City reported modest growth. Boston reported that business activity appeared to be improving, and Richmond reported further strengthening. Philadelphia, Atlanta, Chicago, Kansas City, and Dallas explicitly reported that contacts in their Districts generally remained optimistic about future growth; most of the other Districts cited various examples of ongoing optimism from specific sectors.

General consumer spending grew in most Districts at rates ranging from slight to moderate, with few changes in the pace of growth compared with the last Beige Book. Most Districts reported a continued expansion of auto sales, noting record-high levels for several markets within the Philadelphia and Dallas Districts; however, in some parts of the New York and Philadelphia Districts sales began to fall back from their relatively high levels. Tourism activity was reported to have increased across much of the nation, with many Districts reporting higher hotel booking and occupancy rates.

Activity among nonfinancial service sectors improved overall. District reports on manufacturing were mixed — divided almost evenly into one of three characterizations of the sector's activity: expanding, contracting, or unchanged. Among Districts reporting

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* Prepared at the Federal Reserve Bank of Philadelphia and based on information collected on or before August 22, 2014. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

on their firms' near-term expectations, the manufacturing outlook remained generally upbeat, with New York, Philadelphia, Richmond, and Atlanta reporting increased optimism.

Since the previous Beige Book, residential real estate activity, particularly sales of existing homes and construction of new homes, generally expanded or held steady in about half of the Districts. About half of the Districts also reported some growth in construction and in sales or leasing of nonresidential properties.

Overall, loan demand rose in eight Districts and held steady in one. Credit standards were largely unchanged. Six Districts reported improving credit quality, falling delinquency rates, or both.

Reports regarding farm products were mixed; for some crops, high anticipated harvests have put downward pressure on prices and expected farm incomes. Generally, oil and gas production and demand for related activities continued to edge up from already high levels, while total coal production mostly held steady.

Trends in employment, wages, and prices were relatively unchanged in the Federal Reserve Districts, with greater wage pressures reported in sectors where shortages of skilled labor persisted.

Consumer Spending and Tourism

Most Districts reported some growth in consumer spending with a pace of growth characterized as ranging from slight to moderate. Compared with the last Beige Book, the Chicago District noted a pickup in growth; Philadelphia indicated somewhat slower growth; and merchants in the Atlanta District reported that sales had weakened slightly. San Francisco contacts suggested that consumers appeared more optimistic about the recovery, New York reported mixed consumer confidence, and Cleveland and Richmond indicated that consumers were being conservative in their discretionary spending. Strong sales were noted for clothing and apparel in Boston and Chicago; household and home improvement categories in Boston and Kansas City; electronics in San Francisco; and back-to-school items in New York, Philadelphia, Cleveland, Atlanta, and Dallas. Cleveland also noted that some retailers have seen a significant rise in online shopping.

Since the previous Beige Book, auto industry contacts in most reporting Districts have noted continued expansion, with sales at high levels. In the Philadelphia District, Pennsylvania dealers claimed statewide record auto sales in July, as did an auto dealer in Dallas. However, sales in Pennsylvania began to back off their highs in August. Likewise, New York reported mixed results from some upstate auto dealers. Cleveland, Chicago, Kansas City, and San Francisco noted increased sales of SUVs and pickup trucks. Some Cleveland contacts attributed rising truck sales to a stronger construction industry, while contacts in San Francisco cited a decline in fuel prices as a factor. Inventory levels were mixed among reporting Districts, declining slightly in Kansas City, remaining at or above desired levels in St. Louis, and building up in Cleveland.

Tourism activity increased in all reporting Districts. Hotel occupancy rates remained high or rose in the Boston, New York, Philadelphia, Cleveland, Atlanta, and San Francisco Districts. San Francisco reported that strength in visitor volume in Las Vegas was due more to convention attendance than to tourism, and Richmond cited group bookings for business and reunion events as sources of strength. Most reporting Districts indicated optimism about future activity levels, with Boston, Richmond, and San Francisco reporting strong advance hotel bookings through the fall.

Nonfinancial Services

On balance, nonfinancial services have grown since the previous Beige Book. The Boston District reported strong demand for software and information technology services, with contacts attributing this strength to continued economic recovery and robust demand for software products. New York, Philadelphia, and San Francisco firms reported moderate growth, and providers of professional business services in Minneapolis reported increased activity. Richmond, St. Louis, and Dallas reported modest growth in services, and Kansas City reported stable sales growth for professional and high-tech services firms. Conditions for staffing services were generally positive across reporting Districts. Staffing activity generally increased in Boston, and staffing contacts in Philadelphia noted increases in new clients and firms hiring to grow their businesses. Dallas reported mixed demand from staffing firms, noting strength in engineering, information technology, and health-care positions but flat demand for legal services.

Districts reporting on transportation services generally noted growth. Cleveland, Atlanta, and Dallas reported moderate to strong freight volumes. Richmond contacts attributed some recent growth in port activity to ships diverted from West Coast ports and to an early arrival of the peak import season. Kansas City transportation firms reported stable sales growth and continued high demand for construction products. Cleveland noted that amid broad-based demand strength, shipments of consumer durables and energy-related commodities and materials stood out. Dallas cited notable growth in shipping volumes for steel. Contacts from New York, Cleveland, and Atlanta mentioned driver shortages or difficulties finding qualified drivers, and contacts in Cleveland, Richmond, and Atlanta noted concerns about capacity for various types of transportation.

Manufacturing

Since the last Beige Book period, the Cleveland, Richmond, and Dallas Districts reported that manufacturing activity has expanded; New York, Atlanta, Minneapolis, and Kansas City indicated that their growth rates had moderated somewhat. San Francisco cited mixed reports from a variety of contacts. Boston, Philadelphia, and Chicago reported continued growth.

Within manufacturing, growth was reported across a broad base of sectors. Increases in auto production or derived demand for steel and other related products were cited by Philadelphia, Cleveland, Chicago, and Dallas. San Francisco cited increases in steel capacity utilization over recent months. Cleveland cited slightly lower steel shipments because of seasonal factors but indicated underlying demand was strong. Construction was cited as a source of increased demand by manufacturing contacts in the Philadelphia, Chicago, Minneapolis, and Kansas City Districts. Chicago reported that demand for heavy machinery picked up some on net, as higher demand for construction machinery overshadowed weakness for agricultural and mining machinery. Firms in the Boston District reported strengthening demand for semiconductors, while San Francisco reported that demand for semiconductors strengthened in part because of robust orders from other countries. With the exception of motor vehicle producers, manufacturers in the Atlanta District generally reported weakness in new orders and shipments. Manufacturing associated with the energy sector was cited as a continued source of growth by Philadelphia, Cleveland, and Dallas.

Contacts in most Districts expressed optimism about the near-term outlook for manufacturing growth. Moreover, in the New York, Philadelphia, Richmond, and Atlanta

Districts, optimism reportedly increased in comparison with the previous reporting period. Boston and Cleveland reported that current capital spending is roughly in line with earlier plans. Kansas City indicated slightly diminished capital spending plans, but the outlook remained solidly positive across contacts.

Real Estate and Construction

Barely half of the Districts reported stable or growing residential real estate activity related to the construction of new homes and sales of existing houses. New construction and existing home sales generally grew modestly; market conditions tended to vary by metropolitan area and by neighborhood within metropolitan areas. Boston, New York, and Dallas reported high levels of ongoing multifamily construction projects; Chicago reported a moderate pace of growth, and San Francisco noted a pickup in activity.

A little over half of the Districts reported some degree of growth in nonresidential real estate activity, with increased construction, leasing, or both tied to steady or falling vacancy rates and to rent increases. None of the Districts reported a decline in overall activity, although New York and St. Louis described activity as mixed. In addition to traditional office space, certain Districts reported increased demand for specific projects: Boston noted demand for construction in the hospitality sector, Philadelphia cited industrial and warehouse projects, Richmond noted distribution centers, and St. Louis reported new retail and mixed-use projects as well as new industrial facility construction.

Banking and Finance

Overall, banking conditions continued to improve from the prior Beige Book period. Loan volumes increased in nearly all reporting Districts, led by moderate gains in the San Francisco District and modest gains in Chicago. Philadelphia, St. Louis, and Dallas noted slight gains; Kansas City reported steady demand. Lending volumes rose in Richmond and appeared to increase, on net, in New York and Cleveland.

Auto lending was the category most often cited as growing. The Cleveland and Atlanta Districts reported very strong auto loan demand, while Philadelphia, Richmond, Chicago, St. Louis, and San Francisco also noted growth in this category. In addition, Philadelphia, Chicago, and St. Louis reported growth in credit card borrowing.
San Francisco also noted a slight increase in unsecured consumer credit. New York and Cleveland reported that overall consumer loans had leveled off, while consumer installment loans were described as somewhat softer in the Kansas City District. Philadelphia and San Francisco reported increasing usage of home equity lines of credit, while slightly less usage was reported in the Cleveland District.

Demand for business credit expanded in most reporting Districts. Commercial and industrial (C&I) lending increased in the New York, Cleveland, Richmond, Chicago, St. Louis, and Dallas Districts; reports from the Philadelphia District were mixed. Cleveland reported that demand for C&I loans was greatest from manufacturers, energy producers, and health-care providers; Dallas also noted demand related to energy projects. Commercial real estate lending exhibited slight to moderate growth in the New York, Cleveland, Richmond, Chicago, and San Francisco Districts; Philadelphia and Dallas reported no change; and volumes in the Kansas City District decreased slightly.

Demand for residential mortgages was less robust; only the Philadelphia, Richmond, Chicago, and Dallas Districts reported increases (which were typically only slight), and New York, Cleveland, St. Louis, and Kansas City reported no change or slight decreases. Cleveland did note some increase in refinancing loans, as did Richmond; however, New York and Philadelphia reported continued declines in this loan category.

The Philadelphia, Dallas, and San Francisco Districts reported that credit quality improved further, while New York and Cleveland stated that delinquency rates fell across all loan categories. A survey of St. Louis District banks showed improved creditworthiness of applicants and unchanged or slightly lower delinquencies for several loan categories.

Credit standards remained generally unchanged in most Districts. Bankers in the Atlanta District reported that they were well capitalized but remained cautious about residential lending and fiercely competitive over commercial lending. Contacts in the Richmond and San Francisco Districts described intense competition among lenders for customers with high-quality credit. Philadelphia and Cleveland also reported heated competition. However, according to Atlanta District contacts, standards remained especially rigorous for first-time homebuyers.

Agriculture and Natural Resources

Farming contacts in many Districts have reported record-high crop yields, resulting in declines in market prices for cotton, corn, soybeans, and other agricultural commodities. The lower prices have resulted in lower expected incomes for some crop producers while reducing feed costs for some livestock producers. Dallas reported that historically high cattle prices have slowed the efforts of cattle producers to rebuild their herds. Chicago reported that hog and cattle prices have slipped during this Beige Book period; however, higher milk prices have helped the livestock sector stay profitable. Atlanta, Dallas, and San Francisco reported some drought-related disruptions. San

Francisco reported higher shipping costs among growers because locomotives were being diverted to the Midwest to haul oil and gas rail cars to refineries in Texas.

Activity in the energy sector was generally positive. Oil and gas production and related activities continued to edge higher from already high levels, and total coal production was mostly steady. The Atlanta, Minneapolis, Kansas City, and Dallas Districts reported modest to brisk growth in activities related to oil production (refining, exploration, drilling, rigging, and oil field and geological services). Producers in the Kansas City District indicated that slightly lower oil prices have not negatively affected drilling plans. In contrast, coal production was reported to be relatively stable in the Cleveland and Richmond Districts; St. Louis pointed to modest growth. Richmond reported a modest decline in coal prices, and Cleveland described spot coal prices as remaining depressed. In addition, Cleveland indicated that activity in the Marcellus and Utica shale fields was continuing relatively unchanged at a high level.

Employment, Wages, and Prices

Labor market conditions, as measured by hiring trends, were reported to be relatively unchanged from generally modest rates in most Districts; however, contacts in nearly all Districts reported difficulties finding certain types of skilled labor. Contacts cited shortages of skilled information technology workers in the Boston District, of truck drivers in New York, and of construction workers in Atlanta. Employment agencies in New York described the job market as strengthening, and some Dallas contacts noted that the labor market remains very tight in the energy sector. Contacts in Cleveland, Richmond, and San Francisco also mentioned challenges finding qualified workers.

Staffing contacts in Philadelphia reported that some of their clients are hiring to grow their businesses.

Generally, Districts reported little change in wage pressures, which were commonly characterized as slight or modest. Richmond was an exception, reporting that wage growth slowed in the manufacturing and service sectors. Stronger wage pressure was reported for specific categories of skilled workers. In particular, Atlanta, Chicago, Dallas, and San Francisco noted greater wage pressure for jobs in energy, construction, trucking, manufacturing, engineering, information technology, finance, and health care, among others. Some general contractors in the Cleveland District reported that they have increased wages and upgraded benefit plans as a means of attracting and retaining skilled workers.

Overall, price pressures remained largely unchanged. Input prices were described as modest, stable, or benign in reports from Boston, Cleveland, Atlanta, and Kansas City. Chicago noted that prices fell for corn, soybeans, hogs, and cattle but rose for milk during the current Beige Book period. San Francisco cited higher building supply prices, Minneapolis cited higher prices for some metals, and Chicago noted that energy prices generally remained elevated. Cleveland District contacts in the manufacturing and freight transportation sectors noted some ability to pass higher input prices through to customers with little pushback. By contrast, only a few companies in the Atlanta District noted plans to increase prices over the remainder of the year and expressed confidence that any increases would stick.

FIRST DISTRICT – BOSTON

Business activity appears to be improving in the First District. A greater fraction of retail and manufacturing contacts cite year-over-year sales or revenue increases than in the last couple of rounds and outlooks are positive. Software and IT services and staffing firms also report strong and/or increasing activity. Commercial and residential real estate markets are largely unchanged since the last report. While some contacts cite difficulty filling skilled positions, most responding firms are neither adding to nor subtracting from headcounts to any substantial degree. With the exception of staffing firms, respondents say wages are steady. Prices, too, are reported to be steady with very few exceptions.

Retail and Tourism

Retailers contacted for this round report comparable-store sales changes ranging from down 1 percent to up 7 percent year-over-year. Spending on clothing, household items, and home improvement categories is said to be good. Prices remain steady and inventory levels are well controlled. Some selective hiring is planned. These retailers expect to achieve their 2014 goals of low single-digit sales increases. Their outlook for the U.S. economy ranges from “mixed” to an expectation of moderate growth—one retailer characterized its outlook as “neither bullish nor bearish.”

Boston-area hotels continue to do very well. Occupancy rates averaged 92 percent in July, and revenues were up 9.5 percent from July 2013, mainly because the average price per room was up. Advance hotel bookings are strong through the fall. Through July, Boston restaurant revenues were up 6.9 percent from January-July 2013. Business travel remains strong and leisure travel is up 2 percent year to date, which contacts indicate is a large increase for this market segment. Year to date through July, traffic at Logan Airport was up 4.5 percent. Contacts expect 2014 travel to best 2012 and 2013 records.

Manufacturing and Related Services

Of the dozen manufacturing firms contacted this cycle, only one reports declining sales and two report exceptionally strong sales growth versus the corresponding period a year earlier. The firm reporting a decline in sales attributes it to an exceptionally strong period a year earlier. One of the companies reporting exceptional growth was a semiconductor manufacturer, with 15 percent year-over-year sales growth in the second quarter; this is considered high even for this highly cyclical business. The other strongly growing company is a computer systems vendor who sells largely to the Defense Department; this contact said that clarity about the Federal budget had released significant new spending. Two firms that sell equipment to semiconductor manufacturers report strengthening sales, but a third is facing a “lull” in orders and expects them to pick up in the first half of 2015.

Only one contact, a manufacturer of semiconductor equipment, reports layoffs over the last year. Of the remainder, one reports a small reduction in headcount, four cite no change, and the rest are increasing employment, although no one reports large-scale hiring. A typical comment came from a maker of electrical equipment, who says their hiring is “cautious.” Many firms, including those with strong sales growth, indicate they want to do more with less or “keep headcount growth below sales growth.” Firms continue to cite problems finding skilled engineers.

All but one contact indicates that prices are stable on both the selling side and the input side. The exception is a producer of milk products who reports that the price of raw milk increased dramatically on account of increased exports, raising U.S. retail prices of milk products. Half the contacts report declining inventories. The contact in the semiconductor industry with sharply higher sales also reports an increase in orders that they are unable to fill on time or at all; they are increasing capital spending to reduce bottlenecks. Most firms report increased capital spending more or less in line with earlier plans.

Outlooks are positive. Even the semiconductor manufacturing firm that laid off workers in the first half of the year expects strong sales growth in the first half of 2015. A manufacturer of toys has a mixed outlook; this contact says high-priced products are not selling well because consumers are cautious.

Software and Information Technology Services

First District software and information technology services contacts generally report strong demand through August, with year-over-year revenue increases mostly ranging from 7 percent to 20 percent and quarter-over-quarter increases in the mid-single-digits. Contacts attribute this growth to continued macroeconomic recovery, a rebound in the manufacturing sector, and robust demand in the marketplace for software products. By contrast, one contact producing healthcare software reports slight year-over-year decreases in revenues, which he attributes to the expiration of federal stimulus money for health records software. Most firms have added to headcount in the last year, with positions concentrated in sales, research and development, and marketing. Wages are generally flat; however, one firm awarded merit-based increases in the 3 percent to 4 percent range. Selling prices have held constant. Looking forward, while New England software and IT contacts remain concerned about cost implications of the Affordable Care Act, weakness in the Chinese economy, and the overall macroeconomic environment, they continue to be optimistic, expecting a steady rate of growth through the next few months.

Staffing Services

New England staffing contacts generally cite increased activity since their last reports in May. While one firm supplying workers to the healthcare sector saw a dip in billable hours from June to early July, strong growth in July and August is putting them back on track. On a year-over-year basis, revenue growth is in the 4 percent to 20 percent range. Only one contact continues to report year-over-year revenue declines in the New England region, attributed primarily to client mix. Labor demand is reportedly strong in the information technology, software, aerospace, nursing, electronics, and legal industries. Supply is largely unchanged since May, with continued shortages of high-end technical workers such as software developers, Java programmers, computer engineers, mechanical design engineers, and quality assurance managers. Maintenance and ambulatory nursing positions are also reportedly difficult to fill. By contrast, one contact notes that entry-level IT workers are plentiful. To attract high-skilled workers, staffing firms continue to expand their social media outreach efforts and invest in technological innovations such as mobile compatibility and website development. Both bill and pay rates have increased, with one contact expecting continued upward pressure on wages through the coming months. Contacts express concern about increased health insurance costs as a result of the Affordable Care Act and the extent to which they will be able to pass these additional costs on to their client base. Despite this challenge, New England staffing contacts are increasingly optimistic, expecting year-over-year revenue growth in the high-single-digit range in coming months.

Commercial Real Estate

Commercial real estate activity appears mostly steady across the First District. Contacts in Hartford, Portland, and Providence all describe office leasing activity as slow, but the slowness is attributed to typical seasonal patterns. In Providence, lack of suitable industrial space remains a problem in light of healthy demand for space in that sector. In Hartford, interest is expected to be fair-to-strong in a set of downtown commercial structures that were recently (or will soon be) placed for sale, including three well-leased office towers, and there is the sense that an increasing number of owners want to cash in on robust investor demand for commercial real estate. In Portland, retail sector sales and leasing are strong, helped in part by some large national chains that are adding locations in the area, and strong investment demand across property types in recent months has pushed commercial property prices up by 10 percent from a year ago. In Boston, market conditions are largely unchanged since the previous report. Downtown leasing activity held steady, and office leasing demand appears to be strengthening along the Route 128 corridor. However, despite rising profits, most existing firms are not expanding their space needs and some recent lease renewals resulted in reduced footprints. Contacts continue to be impressed by the amount of capital pouring into commercial real estate (as well as into multifamily structures) in the greater Boston area, with prices that reflect highly optimistic expectations. Also in Boston, construction activity remains strong in the hospitality and multifamily sectors, and speculative office construction remains limited.

The outlook is uncertain for Rhode Island, where the outcome of the closely contested gubernatorial election is seen as holding some upside potential for growth in the state via improved business sentiment. Independently, a contact sees a risk of increase in the vacancy rate for class A office space in downtown Providence. In Hartford, economic growth is expected to fall short of the national pace, likely resulting in flat leasing activity, but the commercial real estate lending environment appears to be loosening up some. In Boston, contacts expect moderate economic growth and a continuation of current trends, including strong investor demand. While one Boston contact sees a risk of overbuilding in the hotel and multifamily sectors, the city's office sector is not seen as facing a similar risk.

Residential Real Estate

Closed sales of single-family homes in June were mixed across the First District compared to June 2013. Sales declined in Massachusetts and Vermont, increased in Connecticut and Maine, and remained unchanged in Rhode Island. (Contacts in New Hampshire were unavailable.) Median sales price changes also varied by state, increasing only in Massachusetts, declining in Rhode Island and Vermont, and holding steady in Connecticut and Maine compared to June 2013. For Massachusetts, this is the fifth consecutive month of year-over-year declines in sales of single family homes and for greater Boston it is the sixth consecutive month of year-over-year declines. Contacts in Massachusetts say the ongoing decline in sales and rise in sales price are driven primarily by a shortage of inventory, with little change in consumer demand. Indeed, Massachusetts inventories have been trending down for more than two years on a year-over-year basis and median sales prices have risen for more than a year and a half. With only 5.5 months of supply, Massachusetts was considered a sellers' market in June (a market is considered balanced when 7.5 to 8.5 months of supply are available). By contrast, Maine is experiencing an increase in inventory and contacts are hopeful that availability will keep the fall market strong. Connecticut contacts cite low inventory of starter homes. Respondents in all five states express concern over student debt levels, believing they will continue to weigh on housing markets for the foreseeable future.

Relative to a year earlier, June condominium sales were higher in Maine, Connecticut, and Vermont and lower in Massachusetts. The median condo sales price increased over the same period in three of those four states; in Connecticut, the median sales price was unchanged.

Sentiment in the First District is generally positive, with expectations of continuing improvement. However, multiple contacts say expectations need to realign to a "new market norm." These contacts say that both buyers and sellers in New England housing markets must adjust to price increases that are well below previous high rates and begin to look at a house as shelter rather than as "a piggy bank."

SECOND DISTRICT--NEW YORK

The Second District's economy has continued to expand at a moderate pace since the last report. Prices of finished goods and services remain generally steady, while businesses continue to report moderate upward pressure on input prices. Labor market conditions continue to improve: Overall, business contacts report some pickup in hiring, and employment agencies describe the job market as strengthening. Service sector firms report that growth has picked up slightly since the last report, while manufacturers say that growth has moderated somewhat. General merchandise retailers report that sales were mixed in July but improved in early August; auto dealers report that sales were mixed but generally steady. Tourism activity has continued to show strength since the last report. Home sales and rental markets were steady to stronger, with inventories still low but rising. Commercial real estate markets have been mixed. Finally, banks report that household loan demand has leveled off but that demand from commercial borrowers continues to grow; they also note little change in credit standards and ongoing declines in delinquency rates across the board.

Consumer Spending

General merchandise retailers say that sales were roughly on plan since the last report with some improvement noted in recent weeks; selling prices have remained steady overall. One major retail chain indicates that sales improved moderately and were generally on plan in July and thus far in August. Retail contacts in upstate New York note that sales were generally flat in June and July but have picked up in early August, with the pickup attributed to strong back-to-school demand. Most retail contacts portray inventories as being in good shape, though one upstate mall characterizes them as on the high side. Prices are mostly described as steady.

Auto dealers across upstate New York report mixed results. Buffalo area dealers report that new vehicle sales increased in July but that sales of used vehicles remained soft. Conversely, after a strong spring season, Rochester area dealers say that new vehicle sales weakened in July and remained flat in early August. Auto dealers note that both wholesale and retail credit conditions remain in good shape.

Tourism activity has strengthened further since the last report. Business at Broadway theaters continued to show strength in July and the first half of August, with both attendance and overall revenues up roughly 13 percent from a year earlier. Hotel occupancy rates remained elevated in New York City and have picked up across much of upstate New York—in particular, in the Buffalo, Rochester and Albany areas—in July. Consumer confidence in the region was mixed again in July: The Conference Board's survey showed confidence rising to the highest level seen so far this year in the Middle Atlantic region (NY, NJ, PA), whereas Siena College's survey of New York residents shows confidence retreating, after climbing for three straight months.

Construction and Real Estate

The District's housing markets have been mixed but a bit firmer, on balance, since the last report. New York City's rental market has continued to strengthen, with rents rising at a moderately brisk rate, while the city's co-op and condo market has been generally stable. Across much of the District, including New York City, home resale activity has receded somewhat, while the inventory of available homes has risen slightly but remains low; selling prices are flat to up slightly. One homebuilding contact in northern New Jersey notes that the tone of the market is fairly positive for multi-family (mostly rental) construction, and that developers are building more ahead of demand. In contrast, single-family developers are reluctant to build any significant inventories of new homes. A contact in New York City notes that there is a good deal of new development in the pipeline and expects sales and closings to pick up in the months ahead; this contact also sees a good deal of new construction in the planning stage—largely condos in Manhattan and rental apartments in Brooklyn and Queens.

Commercial real estate markets have been mixed since mid-year. Manhattan's office market has continued to tighten, with availability rates slipping to a 5½ year low and rents up 5 percent to

10 percent from a year ago. Across the rest of the region, however, office markets have been stable to slightly softer: in Long Island availability rates have held steady near a 7-year low, whereas in northern New Jersey, Westchester and Fairfield counties, and across upstate New York they have been steady at high levels. Office rents have been steady to up slightly. Industrial markets have been steady across most of the District, though availability rates have edged down in northern New Jersey, and asking rents have risen rapidly in Long Island and particularly in Brooklyn and Queens. Finally, Manhattan's retail vacancy rate has edged up while rents remain flat; in Long Island and northern New Jersey, however, the market for retail space has shown signs of firming slightly.

Other Business Activity

Manufacturing firms in the District report some moderation in growth from the brisk pace noted in the last report, whereas service-sector firms indicate a pickup in growth. Manufacturers express increasingly widespread optimism about the near-term business outlook. Service-sector firms report that increases in input costs remain fairly widespread; among manufacturers, such price pressures increased slightly but remain fairly subdued. The vast majority of both manufacturing and service-sector contacts continue to report that selling prices remain flat.

The labor market has shown further signs of strengthening since the last report. Manufacturers continue to add workers, on balance, and considerably more plan to increase than to reduce staffing levels in the months ahead. A growing proportion of service firms say they are hiring, though there has been little change in the proportion that say they are raising wages. One major New York City employment agency reports that hiring activity has continued to improve gradually, while another reports more widespread strengthening and notes increased wage pressures across the board. A growing proportion of workers are said to be switching jobs for increased pay. One trucking industry analyst reports that the industry is doing well but cites a chronic shortage of drivers and notes that this has intensified somewhat in recent months.

Financial Developments

Since the last report, small to medium-sized banks across the District report increased demand for commercial mortgages and commercial & industrial loans, but they report that demand for consumer loans and residential mortgages has leveled off. Bankers also report that demand for refinancing continues to decline. Credit standards are reported to have tightened for commercial & industrial loans, but remain unchanged across other loan categories. Respondents report no change in spreads of loan rates over cost of funds for their residential mortgage business and a narrowing of spreads for all other loan categories—particularly commercial mortgages. Finally, bankers report a further decrease in delinquency rates in all loan categories, but most notably for consumer loans.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period. The most notable changes in growth were reported among several consumer spending categories; these changes may have been triggered by unusually beautiful summer weather that delivered mostly sunny days (thus depressing retail spending but boosting tourism). In particular, contacts at tourist destinations throughout the District reported modest overall growth (greater than the slight growth seen last period) with stronger revenues for hotels, but mixed results for the tourist restaurants and shops. Contacts from nonauto retailers reported slight growth (slower than the modest growth last period), and auto sales decelerated to merely strong growth (from the very strong growth last period).

Service sectors maintained a moderate pace of growth overall, while staffing services continued to rise at a modest pace. Manufacturers also reported an ongoing modest rate of increase in activity. The commercial and residential real estate sectors continued to report slight overall growth during the current Beige Book period, both for construction and for sales and leasing of existing properties. Lending volumes continued to grow slowly over this period, and credit quality continued to improve. Contacts continued to warn of a slight increase in credit risks resulting from heated competition for loans. Overall, contacts reported slight increases in wages, home prices, and general price levels, similar to the paces reported for the previous Beige Book period.

Overall, contacts continued to anticipate moderate growth over the next six months. Generally, more firms expressed greater confidence in the economy and more overall optimism for growth. Several contacts professed relief in the relative absence of any “summer swoon,” resulting in a reduced level of uncertainty.

Manufacturing. Overall, Third District manufacturers have continued to report modest increases in new orders and shipments since the last Beige Book with somewhat faster growth in the early part of the seven-week period than in the latter. Gains in activity continued to reflect demand from a broad base of sectors. Contacts specifically mentioned stronger demand from the auto, aerospace, energy, and railroad car sectors. Housing construction and capital spending on equipment and building repair were also mentioned as spurring some growth in new orders. Weak demand was cited from sectors that produce farm equipment, CDs and DVDs, and toys. In general, contacts expressed their belief that overall consumer confidence had improved, as had the confidence of their business customers.

Two-thirds of Third District manufacturing contacts expressed expectations that business conditions would improve during the next six months; none anticipate deterioration. This represents significantly greater optimism than during the last Beige Book period. However, a somewhat larger percentage of firms now expect to reduce employment levels over the next six months, and a somewhat smaller percentage expect to increase their level of capital spending.

Retail. Since the prior Beige Book period, contacts reported slight growth in nonauto retail sales in the Third District overall — somewhat slower than last period’s modest pace. Results were mixed throughout the period and among retail types. An operator of area malls reported a pickup in activity in August after a “flattish” July. Growth in activity was greatest for family and back-to-school shopping in areas where schools started early. Apparel sales were boosted by relatively cool August weather that helped to focus shoppers' attention on new fall inventories. An outlets operator reported moderate to strong sales growth for July but that one mid-August weekend was flat. However, the outlets operator stated that this has been "the most positive summer since 2007" and that retailers are not seeing the deep discounting (of up to 50 percent) that was evident last summer. Contacts remain optimistic; one stated that retail health is generally better than it was before the recession. Contract talks for future leases are beginning to look out to 2016. Meanwhile, fewer lease deals are stagnating as more retailers are proceeding with their existing lease plans.

The very strong pace of auto sales reported in the prior Beige Book period appears to have softened to merely strong growth as the current Beige Book period draws to an end in August. In Pennsylvania, July was reported as a record month for statewide auto sales. However, sales appeared to be backing down during the first two weeks of August. One contact suggested that dealers sometimes begin running out of inventory at this time of year. New Jersey contacts reported that year-over-year growth rates of auto sales moderated throughout this Beige Book period, following very high rates reported during the prior Beige Book. Dealers remain very optimistic for continued strong sales levels through 2015.

Finance. Third District financial firms have continued to report slight increases in total loan volume since the last Beige Book. Demand increased most for consumer credit lines, such as credit cards and auto loans. Demand for home mortgages and home equity lines continued to grow, but the gains were slower, and some contacts reported falling demand for refinancing loans. Reports of demand for commercial and industrial loans were mixed. The market for commercial real estate appears to have changed little. Banking contacts generally reported ongoing steady improvement in credit quality and their loan portfolios, but they continued to warn of competition leading to an increase in risk taking. Customers have a "strengthening sense of stability" and greater optimism, according to several banking contacts. In particular, capital spending by businesses has picked up a bit; however, enough caution remains to constrain much new hiring.

Real Estate and Construction. Third District homebuilders have reported little change in sales overall since the last Beige Book period, although results are mixed across the District. A New Jersey builder reported another weak month in July but noted a slight pickup in August. In Pennsylvania, a north-central builder credited shale gas money for prompting greater-than-normal numbers of contract signings in July and August. "First-time homebuyers are nonexistent," according to a south-central homebuilder who reported that this August is worse than last year. Residential real estate brokers reported continued slight improvements in sales this period on a par with the prior Beige Book period at the beginning of this summer season. However, on a year-over-year basis, most major markets remain somewhat weaker. Central Pennsylvania is an exception with slight increases reported for existing homes sales in the Harrisburg area. Declines in the Greater Philadelphia area were smaller than during the last Beige Book period; declines in the Jersey Shore area were greater. A major Philadelphia-area broker expressed little change in activity from the last Beige Book period, reiterating that sales were definitely doing better than they were earlier in the year and that higher-priced homes were selling slowly but all other homes were moving quickly. Brokers remain optimistic for further improvement in 2015.

Nonresidential real estate contacts reported that growth in construction activity and in leasing activity have changed little from the slight pace seen in the previous Beige Book period. Construction activity continues to be greatest for industrial/warehouse building projects, which get snapped up quickly when built on spec. An architecture and engineering firm reported that this has been a good summer. Contacts also reported improved leasing activity in southern New Jersey for small offices as well as industrial buildings. However, firms reported few signs of rents strengthening in most office markets and cited continued weak growth in service-sector employment.

Services. Third District service-sector firms have continued to report moderate growth in activity since the last Beige Book. About one-third of all firms reported increases in new orders and sales. Although fewer firms this period reported increases, many firms reported that their current lull or slowdown is seasonal. Several large service companies reported generally steady growth and a greater sense of economic certainty for themselves and their clients. Some staffing contacts in New Jersey and Pennsylvania reported that they are adding new clients, and that firms are hiring to grow their businesses, not just replacing staff. Staffing firms were upbeat about prospects for the remainder of the year. Over three-fourths of the service-sector contacts reported expectations that growth trends will remain positive over the next six months.

Tourist areas in the District benefited from great weather conditions throughout most of the summer. Accordingly, most contacts reported modest gains overall. For some areas, including the Pennsylvania Dutch area and much of the shore, visitation was up from a year ago. Two Lancaster hotel operators experienced their highest occupancy rates since 2008 and their highest average daily room rates since 2006. A Delaware shore hotel operator had "one of its best Julys ever, and best month of August, too." Traffic was reported as down in Atlantic City because of the struggling casinos, and in a few parts of Ocean County, the rental market is still below pre-Sandy levels; however, most of the southern Jersey Shore communities experienced strong summer bookings. Despite greater numbers of tourists, spending at restaurants and shops in tourist areas continues to be soft as households are watching their overall budget. Tourism contacts remain generally positive regarding prospects for the fall.

Prices and Wages. Overall, Third District contacts reported little change to the steady, slight pace of price level increases, similar to other recent Beige Book periods. Less than one-third of the manufacturing firms reported an increase in their input costs — a smaller fraction than in the prior Beige Book period. The percentage of firms reporting higher prices for their own products also fell. About one-fourth of the service-sector firms reported an increase in prices paid and received — slightly fewer than last period. Auto dealers reported little change in pricing. Brokers continued to report slight overall increases in home prices. Some contacts continued to report tight margins. Several homebuilders reported increasing difficulty finding specialty trade contractors. Overall, contacts among service-sector companies reported little change in labor costs. Generally, contacts reported that hiring remains cautious — occurring when necessary for replacement or for some incremental growth; however, some staffing firms noted more hiring for expansion than during the previous Beige Book period.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District expanded at a moderate pace during the past six weeks. Manufacturers reported accelerating business activity. Demand for nonresidential construction services strengthened, while purchases of new and existing homes leveled off. New motor vehicle sales grew at a robust pace; retailers and operators of hospitality venues saw higher year-over-year revenues. Since our previous report, coal production and shale gas activity were little changed, freight volume grew at a moderate to strong rate, and the demand for business credit moved higher. Consumer demand for auto loans remains strong.

On net, payrolls showed a mild increase. Many companies would like to add workers, but they are unable to find qualified candidates. Staffing firms reported little change in the number of job openings and placements. Upward pressure on wages is being felt mainly by the construction and freight transport industries. Input and finished goods prices were stable, apart from increases for metals, agricultural products, and diesel fuel, and a decline in coal prices.

Manufacturing. Reports from District factories indicated that new orders and production grew at a moderate pace since the latter part of the second quarter. Companies seeing the strongest demand are linked to the food, motor vehicle, and oil and gas industries. A few manufacturers attributed stronger demand to customers completing inventory adjustments. Year-over-year revenues are generally higher. Our contacts are optimistic in their outlook, with a majority projecting strong demand for the remainder of the year. Steel shipments dipped slightly since our last report due to seasonal factors, though one contact described demand for value-added industrial steel products as strong. Fourth-quarter steel shipments are projected to be better relative to the third quarter, even on a seasonally adjusted basis. Auto production at District assembly plants for the first seven months of this year was more than 9 percent higher as compared to the same period in 2013.

Capital expenditures are in line with budgeted amounts for the fiscal year. Companies considering an increase to their capital budgets as the year progresses reported that the additional monies will be used mainly for capacity expansion and process automation. A growing number of manufacturers reported rising prices for raw materials, especially metals and agricultural products. Several noted that the increases are beginning to impact their profitability. Higher materials prices were passed through to customers with little pushback. We heard numerous reports about new hiring for managerial, professional (engineering and IT), and production positions. On the production side, there is a growing trend to hire on a temporary or part-time basis until the worker demonstrates that he or she can perform the job. The boost in hiring has put little upward pressure on wages.

Real Estate and Construction. Sales of new and existing single-family homes have leveled off since our last report. Year-to-date purchases through July were slightly lower compared to a year ago. Several homebuilders noted that their construction backlogs are strong at this time due to a sales surge in the spring, but they are uncertain about activity several months down the road. Single-family construction starts across the District are on a gradual upward trend and are ahead of year-ago levels. New-home contracts were spread across all price-point categories. New-home pricing was fairly stable; any increases were attributed to rising development costs, including for lots. Year-to-date selling prices of existing homes trended slowly higher and are above those seen in 2013.

Nonresidential builders reported strong pipeline activity during the past couple of months, and a majority indicated that the level of activity has picked up from year-ago levels. Inquiries are markedly higher and backlogs are growing, in many cases extending into 2015. The hesitancy that was seen earlier in the year on the part of customers to commit to a project has diminished. Market demand is broad based, with contractors becoming less dependent on non-commercial projects. Most builders are fairly optimistic in their outlook, but they remain concerned about labor issues and tight margins.

Builders are projecting modest increases in materials costs, mainly around 2 to 3 percent. The highest price increases are expected for drywall, steel products, softwood, plywood, and diesel fuel. Many general contractors (GCs) reported that they are looking to increase their payrolls, but it is very difficult to find qualified craft-workers. Some GCs have been increasing wages and upgrading benefit plans as a means of attracting and retaining skilled workers. Subcontractors are pushing through rate increases to cover rising construction costs (including labor) and to widen their margins. GCs reported a declining number of bids from subcontractors, which they believe is attributable to inadequate capacity on the part of their subs.

Consumer Spending. Spending at retail outlets and hospitality venues during June and July was generally higher as compared to the early part of the second quarter. Revenues showed a modest increase relative to the same time period in 2013. There is some consensus that even though consumers are growing more confident, their discretionary spending is still relatively weak. Back-to-school items are doing well. A few retailers observed that while their brick and mortar sales have stalled, on-line purchases have risen significantly. Hotel operators told us that occupancy rates are rising and consumers are more accepting of higher prices. Fourth-quarter revenues are projected to be higher, with expected year-over-year percent gains in the low-to-mid single digits. We heard several reports about higher food prices continuing to put upward pressure on restaurant prices and difficulties associated with passing these cost increases through to consumers. Otherwise, vendor and shelf prices held steady. Hotel operators are investing significant monies in upgrading their properties, and some retailers are increasing capital budgets allocated for their e-commerce operations. Retail payrolls are stable.

New motor vehicle sales continued to increase at a robust pace. Year-to-date purchases through July were up 6 percent compared to 2013. Sales of SUVs and trucks picked up during the past few weeks. Some contacts believe that a stronger construction industry is responsible for rising truck sales. With model-changeover time approaching, dealers are seeing some buildup of new car inventory. Used-car purchases showed a modest increase month-over-month and year-to-date. Looking forward, dealers believe that the level of sales will remain elevated, although the pace of sales growth might slow somewhat. The use of incentives has picked up, especially for less popular models. We heard a report about dealers needing to be more adept at using technology to attract younger buyers. Demand for service technicians is growing, but dealers are having difficulty finding qualified applicants.

Banking. Demand for business credit expanded at a moderate pace over the reporting period. Demand was strongest for commercial real estate loans, C&I lending to manufacturers and energy producers, and from healthcare providers. While little change in interest rates was reported, pricing competition remained keen. Consumer credit demand was roughly stable on net. Applications for auto loans remain very strong, while households made slightly less use of HELOCs. A seasonal uptick for boat and RV loans was noted. Residential mortgage activity was flat. Although purchase transactions dominate mortgage applications, several bankers saw an increase in refinancings. Most of our contacts reported a slight decline in delinquency rates across loan categories. No changes were made to loan-application standards during the past six weeks. Core deposits held steady or showed modest growth, with increases coming mainly from commercial customers. On balance, banking payrolls held steady. New hires were mainly in the areas of compliance and risk management; however, in response to reduced traffic at branches, payrolls there are being reduced and some jobs are being changed from full- to part-time, especially those that are considered entry level.

Energy. Year-to-date coal production across the District is consistent with prior-year levels, with no material change in overall production levels anticipated in the near term. A decline in the output of thermal coal (sold mainly to domestic utilities) has been offset by increased production of metallurgical coal, much of which is exported. Spot coal prices remain depressed. Activity in the Marcellus and Utica shales is at a high level. During the first half of 2014, the number of producing wells in Pennsylvania's Marcellus rose by almost 10 percent compared to the second half of 2013, and the amount of gas produced increased by over 14 percent. We heard a report about Ohio's Utica shale production remaining below its potential until additional gas transport and processing infrastructure is completed. Wellhead prices for natural gas have declined slightly, while oil prices were steady. Little change was seen in equipment and materials prices, aside from an increase in diesel fuel. Oil and gas producers are feeling some upward pressure on labor costs.

Freight Transportation. Freight volume expanded since our last report, with several contacts describing the pace of growth as moderate to strong. Although demand is fairly broad based, shipments of consumer durables (including motor vehicles) and energy-related commodities and materials stand out. The near-term outlook is favorable; however, several freight haulers are concerned about a capacity shortage. At this time, cost pressures are limited to labor—wages, recruitment, and retention. Some of these rising costs are being passed through to higher shipping rates. Fuel surcharges remain in place. Hiring is for replacement and to a lesser degree, adding capacity. Although most fleets would like to add capacity, they are having difficulty finding qualified drivers. Year-to-date capital spending is in line with or slightly ahead of projections. Firms that are ahead of projections are typically using the monies to add capacity.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy strengthened further in recent weeks. Manufacturing advanced moderately as shipments and new orders accelerated, and executives were upbeat about further improvement in business conditions. Retail sales grew moderately, although shoppers remained conservative in their spending. At non-retail services firms, the pace of revenue growth was modest. Tourism strengthened, with an increase in group bookings. Lending volumes rose, with stronger demand for mortgage loans, and competition among lenders was stiff. Commercial real estate lending increased in several states, although there were few reports of new construction. There were some reports of upward pressure on interest rates. Residential real estate sales improved modestly, although inventory and prices were little changed. Commercial real estate activity generally strengthened, with mixed reports on vacancy rates. Rental rates were little changed in most locations, while commercial real estate sales prices varied across the District. In agriculture, some crop prices decreased, while input prices were unchanged. Planting and harvesting continued on schedule. In energy markets, coal production was unchanged and prices declined. Demand for both temporary and permanent employees rose slightly in recent weeks. Wage growth slowed in the manufacturing and service sectors, according to our most recent surveys. Prices of manufactured finished goods and raw materials grew at a slower rate, and prices in the service sector, including retail, moved up more rapidly.

Manufacturing. Manufacturing activity improved moderately in recent weeks. According to our latest survey, shipments and new orders grew at a faster rate and inventories of finished goods and raw materials rose at about the same pace as in our last report. Several North Carolina manufacturers reported steady order volumes in recent weeks, while two Virginia producers stated that shipments and new orders increased slightly. A manufacturer of electrical products located in South Carolina reported that sales had recently increased and he was upbeat about the future. Additionally, an executive at a pipe manufacturing facility in Maryland said that orders and shipments were up slightly from the previous month. Several manufacturers reported greater optimism about future business conditions. According to most contacts prices of raw materials and finished goods rose at a slower pace. In contrast, an executive at a Carolinas packaging corporation stated that input prices decreased, and output prices remained stable.

Ports. Port activity strengthened further since our last report. Volume and traffic through District ports were considerably greater year over year, with double-digit gains in imports. Some of the increase was attributed to diversions from the West Coast during labor negotiations. In addition, the peak import season appears to have shifted earlier this year. Consumer goods such as apparel, auto parts, and plastic products were import leaders. Furniture imports were flat according to one source. A port official noted that ship capacity has become very tight, driving up prices for smaller importers. Export leaders were soybeans, grains, corn, lumber, forest products, and auto parts, and for one port, cars.

Retail. Retail sales grew moderately faster in recent weeks despite generally restrained spending by consumers. A representative of retailers in central Virginia commented that consumers seemed to be thinking, “It’s nice, but is it necessary?” The manager of a discount store at the Virginia shore reported flat sales in recent weeks, and a West Virginia grocer said his market was soft. Further, a building supply executive said that consumers were less optimistic than a month ago. In contrast, a South Carolina chain grocer stated that sales had increased and that he was remodeling some of his stores. Most auto dealers reported stronger sales growth in recent weeks, although a couple reported a slightly slower pace. A West Virginia dealer attributed his softer sales to layoffs of coal workers in his area. Retail prices increased more rapidly since our last report.

Services. Revenues at non-retail services firms rose modestly in the last four weeks. An executive at a financial services firm in central Virginia commented that his clients were “somewhat sanguine about prospects,” and an accountant at a business-to-business firm reported more new contracts. In contrast, a CFO at a healthcare organization said that demand for elective services remained soft, and resources have been managed to match the volume. In trucking, an executive reported that business was steady at typical levels, with some upward movement in contract and spot market pricing. He said that his firm was seeing a continued shift toward more “dedicated” agreements, in which customers were locking in rates for future shipping. Prices in the service sector rose slightly faster compared to a few weeks ago.

District tourism strengthened during July and August, particularly group bookings for business and reunion events. A Baltimore hotelier said autumn sporting events were driving advance bookings. In Virginia Beach, transient bookings softened, while group reservations increased for family retreats, association events, and some military events. Hotel bookings were also strong at resorts in the mountainous areas of the District, where a contact reported a very strong start to his fiscal year, owing in part to well-attended local events. Some room rate increases were reported.

Finance. Reports on loan volumes were mostly positive in recent weeks. Demand for residential mortgages strengthened somewhat. Firms in South Carolina and West Virginia reported increased mortgage demand, and a North Carolina lender stated that loan activity had improved. In contrast, a banker in central Virginia reported a slight decrease in mortgage demand over the last few weeks. Refinance lending was unchanged in Virginia and increased slightly in West Virginia. Demand for auto loans strengthened in West Virginia. Financial contacts in Maryland, North Carolina, and South Carolina reported that commercial lending was up. Additionally, loan volumes increased in Virginia, where demand was buoyed by some new construction projects in Northern Virginia and Richmond.

According to several bankers, competition for loans remained stiff. For example, a West Virginia banker characterized business lending in the state as originating more from a “take away game” than from new loans. Additionally, an auto dealer in Maryland remarked that competition was strong for consumer credit, especially for buyers with high credit scores. Another Maryland banker said that used car financing tightened slightly but was still available and affordable. Some slight upward pressure on interest rates was reported in Virginia and West Virginia. Lastly, credit standards were largely unchanged with the exception of Virginia, where some terms were relaxed.

Real Estate. District housing markets improved modestly since our last report, particularly in August. A Charlotte agent stated that closed sales and pending sales were up year over year, while a Northern Virginia Realtor reported above-average buyer traffic. A broker in Washington D.C. said that summer sales had picked up slightly from the slump caused by an unusually harsh winter. District-wide, home prices were generally flat and average days on the market appeared little changed in recent weeks, with higher-end homes continuing to sell more quickly than homes at other price points. Existing home inventories were mostly flat, although there were scattered reports of more homes coming onto the market. A Northern Virginia broker reported an increase in absorption of single-family inventories. Contacts indicated that they saw no change in the level of multi-family construction.

Commercial real estate activity strengthened moderately over the past several weeks. Commercial brokers in many areas of Virginia and South Carolina reported steady leasing activity, while Realtors in Charlotte and Charleston, West Virginia said leasing slowed; a contact in Roanoke indicated no change. Vacancy rates decreased according to Realtors in Richmond and Charleston, South Carolina, while contacts in Virginia Beach, Raleigh, Charlotte, and Roanoke stated that vacancy rates were unchanged. Realtors in parts of Virginia, West Virginia, and North Carolina reported that rents stabilized, and landlords were staying close to list prices on rentals, with fewer concessions and incentives. A slight uptick in rents was reported in Charleston, South Carolina. Comments on the supply of Class A office space were mixed. Brokers in Virginia Beach, Raleigh, and Charlotte reported an increase in commercial sales; however commercial sales prices varied across the District. The amount of construction anchored by grocery stores and restaurants increased in Richmond and Virginia Beach, and a source reported additional distribution center construction in Charlotte.

Agriculture and Natural Resources. Prices received by farmers dropped for some crops since our last report. For example, cotton prices decreased in the last six weeks and corn prices fell year over year. However, farmers reported no change in input prices in recent weeks. A Virginia producer reported completion of summer soybean planting and barley harvesting, while corn harvesting has begun in South Carolina. A sod farmer commented that he expects high demand and tight supply to end soon.

Coal production was unchanged since our last report, and exports of metallurgical and steam coal weakened. In addition, coal prices declined modestly in the past six weeks.

Labor Markets. The demand for workers rose slightly in recent weeks. In Maryland, contacts from the manufacturing, financial services, technology, and construction industries indicated increases in hiring, including some previously outsourced positions. A source in the District of Columbia stated that job growth continued, but at a slightly slower pace than in prior weeks. A community developer in North

Carolina reported some staff growth and a high volume of applications for open positions. A South Carolina staffing firm representative noted an increase in hiring, including for temporary and temp-to-permanent jobs. However, some hardware merchants reported cutbacks in employee hours. A manufacturer in North Carolina said finding skilled labor remained a problem; however, an in-house training program was almost complete. Finally, some call centers in North Carolina had difficulty filling open positions. Wage reports were little changed on balance. According to our most recent surveys, manufacturing employment eased slightly and the average workweek lengthened; employment in the service sector strengthened. Average wage growth in the manufacturing and service sectors slowed, particularly wage growth in the retail sector.

SIXTH DISTRICT – ATLANTA

According to reports from businesses across the Sixth District, economic activity increased modestly from July to mid-August. Regarding the outlook, most firms continue to be optimistic and expect higher growth over the remainder of the year.

Retailers noted sales had increased from their year-earlier level and automobile sales continued on their upward trend. Reports from contacts in the travel and tourism sector remained upbeat. Residential brokers and builders cited that sales of existing and new homes were ahead of last year's levels. Contacts also indicated that inventory levels were mostly down and home prices continued to rise on a year-over-year basis. Commercial real estate firms reported that demand continued to improve and construction activity grew modestly, on balance. With the exception of motor vehicle producers, manufacturers generally noted a decline in new orders and production compared with the previous reporting period. Bankers reported mixed results regarding financing conditions as they remain cautious about residential lending but competitive in their commercial lending. Businesses indicated modest increases in hiring across much of the District over the reporting period. Firms cited relatively stable wage growth, while input cost pressures were described as benign.

Consumer Spending and Tourism. According to District merchants, retail sales weakened slightly since the last report, though they remained above their year-earlier level. Retailers indicated that margins remained tight. Back-to-school sales got off to an early start but have been dominated by heavy promotional activity and discounting. Once again, several contacts reported that a strong housing market in their area had boosted retail sales. The outlook among District retailers is a bit more guarded than in our last report but most businesses anticipate sales will improve through year end. District auto dealers noted that sales were ahead of their year-earlier level; as in the broader retail sector, promotional activity was strong.

Reports from travel and tourism contacts were positive. Hospitality contacts in Georgia, Florida, and Louisiana saw increased occupancy and daily room rates in July compared with the same period last year. Reports indicated that theme park attendance and ticket sales early in the summer were softer than expected as family vacations were delayed because of the addition of winter makeup days at the end of the school year. However, activity picked up to anticipated levels as the summer progressed. Mississippi casino gaming revenues increased compared with a year ago. Industry contacts expect business and leisure travel to exceed forecasts for the remainder of 2014.

Real Estate and Construction. Many District brokers reported that home sales had increased from their year-earlier level. The majority of brokers indicated that inventory levels remained flat or declined on a year-over-year basis. Contacts continued to note that home prices were ahead of their year-earlier level. However, the outlook among brokers worsened somewhat from previous reports as most expect home sales to remain flat or decline slightly over the next three months.

Reports from District builders remained fairly positive. Most indicated that recent activity either met or exceeded their plan for the period. The majority of builders noted that construction activity and new home sales were ahead of year-ago levels. Half of builders reported that inventories of unsold homes were down from a year earlier. The majority of contacts continued to see modest home price appreciation. The outlook for new home sales and construction activity remains positive.

Demand for commercial real estate continued to improve since the last reporting period. Contacts indicated that absorption and rent growth across property types remained positive. Contractors noted that apartment construction remained fairly strong and that the level of construction activity across other property types had picked up modestly. Half of contacts reported no change in backlogs from their year-earlier level, while the remaining half indicated their backlog had increased relative to a year ago. The outlook among District commercial real estate firms also remains positive.

Manufacturing and Transportation. District manufacturers indicated that the pace of growth had slowed over the reporting period. Contacts cited declines in new orders and production compared with the previous reporting period. Purchasing agents noted longer wait times for materials ordered from their suppliers. Finished inventory levels were reported to have increased somewhat. The outlook among manufacturers for higher production improved slightly from the previous reporting period.

Reports from district transportation firms were mixed. Trucking companies noted strong freight volumes; however, driver shortages and tight trucking capacity continued to negatively affect the industry. Air cargo experienced slight increases in tonnage led by a rise in international freight. District rail contacts cited double-digit increases in domestic coal volumes as export coal volumes declined, and shipments of petroleum products nearly doubled from their year-earlier levels. Increased capital expenditures on rail infrastructure and rail car capacity were also noted.

Banking and Finance. Bankers reported that they were well capitalized and had plenty of money to lend. However, banks continued to be cautious with regards to residential lending. Availability of credit to homebuyers, particularly first-time homebuyers, remained limited as rigorous underwriting standards continued to slow down the approval process. Contacts reported a decrease in mortgage loan production due to difficulties associated with the Qualified Mortgage Rule. Lender competition for commercial loans continued to be fierce. Consumer credit availability improved since the previous report. Auto loan demand remained very strong over the reporting period.

Employment and Prices. Employment levels picked up modestly across most of the region; however, businesses still mentioned difficulties in finding qualified workers, which seem to be both intensifying and broadening across skills and occupations. In addition to trucking, engineering, construction, and information technology positions, contacts increasingly reported difficulty filling mid-level positions such as analysts and clinicians.

Most contacts continued to cite relatively stable annual wage growth in the 2 percent to 3 percent range. However, there were some reports of rising offer wages and ongoing upward wage pressure for some high-skill, low-supply positions. Overall, however, businesses continued to report relatively benign input-cost pressures. Only a few companies noted plans to increase prices over the remainder of the year and expressed confidence that any increases would stick. According to the Atlanta Fed's survey on business inflation expectations, unit costs are expected to increase 2.0 percent over the next 12 months.

Natural Resources and Agriculture. Gulf Coast refineries have experienced record-high utilization rates over the summer as a result of refining, refitting and capacity expansions, increases in both domestic and foreign demand, and access to lower-cost crude oil. Energy firms expect sustained growth in the coming months, yet continue to monitor volatile global events because of their potential to affect crude oil supply and energy prices.

Parts of Georgia, Florida, and Alabama experienced abnormally dry to moderate drought conditions over the reporting period, while the rest of the District ended the period drought free. The USDA designated several counties in the Florida Panhandle as primary natural disaster areas due to damages and losses caused by excessive rain earlier this year. Lower corn prices benefitted livestock and poultry producers that rely on corn for feed. Pulp exports were robust as a result of increased demand for low-end paper products from emerging markets.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity remained moderate in July and August, and contacts maintained their optimistic outlook for the rest of the year. Consumer and business spending, manufacturing production, and construction and real estate activity all increased moderately. Credit conditions continued to improve. Cost pressures increased some, but remained modest. Corn, soybean, hog, and cattle prices were lower, while milk prices were higher.

Consumer spending. Growth in consumer spending picked up to a moderate pace in July and August. Retailers reported noteworthy sales increases for apparel and lawn and garden items, but cited weaker growth at grocery stores. The relatively mild weather resulted in below-average sales of items such as summer-related toys and cooling appliances. Promotional activity scaled back some, but remained high, as clearance sales have been effective at eliminating excess inventories. Retail contacts noted that the cost of further intensifying promotions outweighed any potential benefits. Light vehicle sales increased, particularly for mid-size sedans and crossover vehicles. Activity in auto service and parts departments remained high as dealerships continued to address the spate of recent recalls.

Business spending. Business spending continued to grow at a moderate pace in July and August. Inventories remained at comfortable levels for most manufacturers and retailers. Capital expenditures and spending plans both increased. More contacts reported capital expenditures to support capacity expansion, particularly in the auto and construction industries, and contacts increased their outlays on structures while maintaining spending levels on industrial equipment and information technology. The pace of hiring slowed slightly, though hiring plans ticked up. Demand remained strong for skilled workers, particularly for those in professional and technical occupations and skilled manufacturing and building trades. Shortages of skilled workers were reported in the manufacturing, construction, transportation, IT, and healthcare industries. Contacts again mentioned expanding internal training programs to address worker shortages and an increased willingness to pay higher wages and bonuses. In the construction industry, contractors were renting specialized equipment in place of hiring new workers. Demand for lower-skilled workers picked up some, with a staffing firm reporting increases in billable hours in the trade, transportation, and utilities industries.

Construction and real estate. Construction and real estate activity increased over the reporting period. Residential construction expanded at a moderate pace in both the single- and multi-family markets. Builders continued to note that activity varied widely by neighborhood, with most of the strength concentrated in high-income urban areas. Single-family home sales increased, while condominium sales weakened somewhat. Contacts were optimistic that sales would gain momentum in the fall, as continuing increases in home prices and residential rents signal solid underlying demand. Nonresidential construction also expanded at a moderate pace, led by demand for industrial and office buildings. Contacts again reported that automotive supply manufacturing plants were a particular source of strength. Commercial real estate activity increased broadly, as vacancies ticked down and rents rose. Leasing of industrial buildings, office space, and retail space all increased.

Manufacturing. Manufacturing continued to grow at a moderate pace in July and August. The auto industry remained a source of strength for the District. Demand for steel increased further. However, capacity utilization in the steel industry is still low by historical standards, and a contact noted that some capacity designated for nonresidential construction remains offline due to continued weak demand from this market segment. Steel service center inventories remained a bit low, but contacts expected to rebuild them over the next two months. Most specialty metal manufacturers reported improving order books, though a few were disappointed by second-quarter sales. Demand for heavy machinery picked up some on net, as higher demand for construction machinery overshadowed weakness for agricultural and mining machinery. Contacts noted that growth in farm machinery sales, in particular, has slowed, with dealers offering discounts on purchases of equipment for which there had been waiting lists in recent years. Moreover, there were reports of excess inventories of used farm equipment and layoff announcements at farm machinery plants in the District. Manufacturers of construction materials reported steadily increasing production and shipments, and a contact expected strong demand over the third quarter. A utility company reported that weather-adjusted energy usage was higher than a year ago at this time.

Banking/finance. Credit conditions improved modestly in July and August. Business lending increased, with contacts noting continued growth in demand for the financing of equipment and commercial real estate from small and middle-market businesses. In addition, both small and middle-market businesses increased their utilization of credit lines. Growth in leveraged lending was relatively flat, with pricing and structure little changed from the prior reporting period. A banking contact noted that some corporate clients were shifting toward traditional and leveraged bank loans and away from high-yield debt to satisfy their funding needs. Banking contacts also continued to cite competitive pressures on terms and pricing for traditional and leveraged business lending, particularly from nonbank financial institutions willing to take on higher credit risk. Consumer loan demand increased moderately over the reporting period, with contacts noting an increase in credit card lending, continued growth in auto lending, and a slight uptick in new mortgage originations.

Prices/costs. Cost pressures increased over the reporting period, but remained modest overall. Energy prices remained elevated. Steel prices were higher in spite of increased imports, as a large share of these imports remains at the docks due to customers' unwillingness to pay elevated shipping surcharges. Retail prices were up slightly as contacts reported decreasing the generosity of sales promotions. Meat and dairy prices also rose, though contacts did not report price pressures for other grocery items. Overall, wage pressures were modest, but a number of contacts again reported wage pressures for skilled workers. In addition, a staffing firm reported that pay rates increased for staffing and professional positions. Non-wage labor costs were little changed.

Agriculture. Corn and soybean production in the District should exceed last year's levels. Although much of the District recently weathered a dry spell, cool temperatures helped reduce the stress on crops. Nonetheless, crops in the northern parts of the District may not fully mature before the dates of normal first frosts. With national records expected for the corn and soybean crops, prices moved down from the prior reporting period. To avoid selling crops for lower prices than in recent years, farmers have explored options for storage and livestock feeding. Higher milk prices helped the livestock sector stay profitable even though hog and cattle prices slipped. Ethanol prices eased, but production remained profitable.

Eighth District - St. Louis

Summary

The economy of the Eighth District has expanded at a modest pace since the previous report. Retail activity has improved modestly. Recent reports of planned activity in manufacturing and services have been positive on net. Residential real estate market conditions have remained weak and commercial real estate market conditions have been mixed since the previous report. Lending activity at a sample of District banks has increased slightly or remained stable. Finally, wages and employment levels have grown modestly, while prices have increased moderately.

Consumer Spending

Anecdotal reports from retailers indicated modestly improving conditions. Roughly 40 percent of the retailers surveyed anticipate third-quarter sales to be similar to a year ago, and 40 percent anticipate higher or somewhat higher sales. The majority of respondents report that third quarter sales are on pace to meet or exceed expectations. The outlook for fourth-quarter sales among retailers was also positive. Roughly half of contacts expect fourth quarter sales to be at least somewhat higher than the same period last year, while a third expect sales to be similar to the same period last year.

Anecdotal reports from auto dealers were also positive. About half of the auto dealers surveyed anticipate third-quarter sales to be similar to a year ago and the other half expect higher or somewhat higher sales. The majority of auto dealers reported that more low-end cars have been sold relative to high-end cars. Half of the contacts reported that their inventories are too high, but most others reported that inventories are at their desired levels. Contacts anticipate stable or improved sales in the fourth quarter compared with a year ago.

Manufacturing and Other Business Activity

Reports of planned manufacturing activity since the previous Beige Book have been positive on net. Several manufacturing companies reported plans to add workers, expand operations, or open new facilities in the District. Producers of steel, pet food, plastics, lighting products, consumer goods, and industrial appliances plan to hire additional employees and expand operations in the District. In contrast, firms that manufacture tools and light machinery reported plans to lay off workers and close facilities. Reports from auto parts manufacturers were mixed.

Recent reports of planned activity in the District's service sector have also been positive on net. Firms in healthcare, finance, retail, transportation, and telecommunications services reported new hiring and expansion plans. In contrast, firms in food, information technology, and news media services announced plans to lay off employees.

Real Estate and Construction

Home sales decreased in the Eighth District on a year-over-year basis. Compared with the same period in 2013, July 2014 year-to-date home sales were down 3 percent in Louisville, 4 percent in Little Rock, 6 percent in Memphis, and 4 percent in St. Louis. Residential construction declined in the majority of the District's metro areas. July 2014 year to date single family housing permits decreased in the majority of the District metro areas compared with the same period in 2013. Permits decreased 14 percent in Louisville, 29 percent in Little Rock, and 1 percent in St. Louis. Permits showed no change in Memphis.

Commercial and industrial real estate market conditions in the District have been mixed. Contacts in Louisville reported weak demand for downtown office space, while contacts in St. Louis reported increasing demand for office space and a scarce supply of commercial real estate space. Contacts in Memphis reported stable office vacancy rates and a decrease in both retail and industrial vacancy rates. Commercial and industrial construction activity improved throughout most of the District. Contacts in Louisville reported the return of large-scale construction with two new retail projects in the area. A contact in Little Rock reported a new industrial facility under construction in southwest Arkansas. Contacts in Memphis reported the redevelopment of an uptown building into mixed-use space, and contacts in St. Louis reported construction of a large industrial building on a speculative basis.

Banking and Finance

A survey of District banks showed that overall lending activity during the past three months was unchanged to slightly higher. For commercial and industrial loans, credit standards eased slightly over this period, creditworthiness of applicants improved modestly, demand was stronger, and delinquencies were largely unchanged. For prime residential mortgage loans, credit standards remained basically unchanged, creditworthiness of applicants improved moderately, demand was unchanged to somewhat lower, and delinquencies were largely unchanged. For credit cards, both credit standards and creditworthiness of applicants showed no change during the period, demand was moderately stronger, and delinquencies were unchanged. Finally, for auto loans and other consumer loans, credit standards eased slightly, creditworthiness of applicants improved slightly, demand increased slightly, and delinquencies decreased slightly.

Agriculture and Natural Resources

As of mid-August, around 73 percent of the District corn, rice, and sorghum crops was rated in good or excellent condition. In contrast, only 56 percent of District pasturelands was rated in good or excellent condition. District farmers will likely produce close to 9 percent less corn in 2014 than in the previous year. However, District rice, cotton, and sorghum production will be 34 percent, 17 percent, and 11 percent higher than last year, respectively. District coal production for July 2014 was about 10 percent higher than in July 2013. Coal production year-to-date is 1.3 percent higher than the corresponding period a year-ago.

Employment, Wages, and Prices

A survey of Eighth District businesses indicated that, over the past three months, employment levels and wages have grown at a modest pace while prices have increased moderately compared with the same period last year. Sixty-one percent of contacts reported that employment levels have stayed the same relative to the same period a year ago, while 31 percent reported a slight increase and 8 percent reported a slight decrease. Sixty percent of contacts reported that wages have stayed the same, while 37 percent reported a moderate increase and 2 percent reported a slight decrease. Finally, 62 percent of contacts reported that prices have stayed about the same relative to a year ago, while 31 percent reported an increase and 7 percent reported a decrease.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew moderately since the last report. Increased activity was noted in consumer spending, tourism, construction, commercial real estate, professional services, manufacturing, and energy. Agricultural conditions were mixed, while activity was steady in mining and down in residential real estate. Labor markets continued to show signs of gradual tightening. Overall wage increases were moderate, and prices were generally level.

Consumer Spending and Tourism

Consumer spending increased moderately. A Minneapolis-area mall reported slightly higher recent sales compared with a year earlier; summer items were largely sold out. A restaurant chain reported recent same-store sales up about 8 percent compared with a year ago. Several new chain restaurants were moving into Rapid City, S.D. Recent vehicle sales were solid in many parts of North Dakota, with brisk sales continuing in the western part of the state. Auto dealers in rural areas were concerned about a potential drop in sales activity if crop prices remain relatively low.

Summer tourism activity was above year-ago levels. According to officials, tourism in northwestern Wisconsin has been solid since mid-June after a slow start; tourism was above year-ago levels in western North Dakota. Summer tourism activity in the Upper Peninsula of Michigan was about the same as last year, according to an official. Hotel and motel occupancy was up from a year ago during the early part of the summer season in western South Dakota; however, in recent weeks, some tourism businesses observed slower activity relative to last year.

Construction and Real Estate

Commercial construction activity increased. Compared with a year ago, the value of commercial permits issued in July in Bismarck, N.D., increased significantly, but industrial permits were relatively flat. Commercial permits in Billings, Mont., more than doubled in value in July from a year earlier. In Sioux Falls, S.D., the value of July commercial permits increased significantly from a year ago. Residential construction increased from last year. The value of July housing permits increased in Bismarck from a year ago, primarily due to multifamily building. July single-family residential building permits in Billings increased 67 percent in value from last year, but multifamily building was down. The value of July residential permits in Sioux Falls increased 24 percent from the same period last year. However, in the Minneapolis-St. Paul area, the value of July residential permits decreased 8 percent compared with July 2013. Based on a Minneapolis Fed mid-August survey of

Ninth District contacts, a large majority of respondents from the construction sector thought sales revenue would increase over the next four quarters.

Activity in commercial real estate markets increased since the last report. A real estate analytics firm noted that Minneapolis-St. Paul office, retail, and hotel vacancy rates dropped in the second quarter from the first quarter of 2014. According to the mid-August survey, half of the respondents from the real estate sector expect increased sales revenue over the next four quarters, while 29 percent expect a decline. Residential real estate market activity decreased since the last report. In the Sioux Falls area, July home sales were down 15 percent, inventory increased 9 percent, and the median sales price increased 5 percent relative to a year earlier. July home sales were down 6 percent from the same period a year ago in Minnesota; the inventory of homes for sale increased 12 percent, and the median sales price rose 4 percent. The Minneapolis-St. Paul multifamily vacancy rate increased in the second quarter from the first quarter of 2014.

Services

Activity at professional business services firms increased since the last report. According to the mid-August survey, respondents from the professional services sector experienced increased sales activity over the past four quarters and expect increased sales activity over the next four quarters. Professional services respondents also expect increased profits and productivity over the next four quarters.

Manufacturing

District manufacturing continued to increase since the last report. A manufacturing index released by Creighton University (Omaha, Neb.) fell slightly from the previous month in July for Minnesota and the Dakotas, but remains at a level consistent with expansion in activity. About two-thirds of manufacturers responding to the Minneapolis Fed's mid-August survey reported that their sales increased over the previous four quarters, and more than half expect continued growth over the next year. In Minnesota, a heating, ventilation, and air conditioning manufacturer and a custom precision manufacturing machine producer recently announced capacity expansions.

Energy and Mining

Activity in the energy sector grew briskly since the last report. Mid-August oil and gas exploration activity increased from a month earlier. North Dakota oil production jumped 2 percent in June from the previous month to a new record. Regulators in North Dakota recently approved a 150 megawatt wind turbine project. Mining activity held steady since the last report. July production at Minnesota iron ore mines increased from June, but was down slightly from a year earlier. Since the last report, a copper-nickel mining and processing operation in the Upper Peninsula made its first ore shipments.

Agriculture

Agricultural conditions were mixed since the last report. Most of the District's corn and soybean crops were in good or excellent condition in mid-August, with strong yields forecasted. Livestock and dairy producers continued to benefit from higher output prices and lower feed costs. A majority of lenders responding to the Minneapolis Fed's second-quarter (July) survey of agricultural credit conditions reported lower farm incomes compared with the previous quarter. Relative to a year earlier, prices received by farmers in July were lower for corn, soybeans, and wheat; prices increased for hay, cattle, hogs, poultry, eggs, and milk. A mildew outbreak in North Dakota may reduce sunflower yields.

Employment, Wages, and Prices

Labor markets continued to tighten gradually since the last report. A recreational vehicle manufacturer will add 100 new employees, and an industrial equipment manufacturer announced plans to hire more than 30 new workers. A snack food manufacturer in a rural area has hired 60 foreign workers with seasonal work visas in order to fill open positions. A job-placement firm noted increased demand recently for workers across a number of industries. According to the mid-August survey, over half of all respondents expect to keep the same number of full-time employees on staff over the next 12 months, while about a third anticipate increased employment.

In contrast, an agribusiness firm recently announced that it will cut about 170 information technology jobs and outsource the work to a company overseas, a fast-food products company recently cut 66 jobs, and a medical device firm announced 40 job cuts.

Overall wage increases were moderate since the last report. According to the mid-August survey, the pace of wage increases over the next 12 months is expected to remain generally the same as during the preceding 12 months. Also, some trucking firms in the District noted that they raised wages over the past few months to attract drivers.

Prices were generally level, with some exceptions noted below. A construction contractor noted that construction costs are expected to increase 6 percent in the Minneapolis-St. Paul area over the next 12 months. Mid-August Minnesota gasoline prices were down about 15 cents per gallon both from mid-July and from a year earlier. Slight gains in some metals prices were noted since the last report, except for copper prices, which decreased slightly.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy grew modestly in July and early August, and contacts remained optimistic about future growth. Consumer spending increased modestly with slightly higher sales reported by retailers and auto dealers, while restaurant and tourism contacts experienced moderate growth. Manufacturing growth slowed somewhat yet remained positive, and expectations for future activity remained solid. Construction activity was stronger, and was expected to continue to expand at a modest pace. Bankers reported steady loan demand, as well as stable loan quality and deposit levels. Crop prices, along with farm income expectations, were lower due to improved growing conditions and elevated crop production levels. Energy-sector activity increased, with firms noting a modest rise in oil well drilling. Wage pressures increased slightly since the last survey period, particularly for some skilled trade positions. Prices grew modestly, and were expected to rise at the same pace going forward.

Consumer Spending. Consumer spending increased modestly in July and August, although contacts in some industries were slightly less optimistic about future sales growth than in previous surveys. Retail sales edged higher and store inventories fell sharply. Several retailers noted stronger sales of home improvement and household items. Expectations for future retail sales remained solid, with inventory levels expected to stabilize. Auto sales increased slightly and were modestly above year-ago levels, but the rate of expected future sales growth slowed mildly. Contacts said mid-sized cars and small SUVs sold particularly well. Auto inventories fell slightly and were expected to continue to decrease. Restaurant sales grew moderately, although future activity was expected to remain steady. Tourism-related activity continued to rise, with conditions considerably better than a year ago. Tourism contacts expected solid activity heading into the early fall months.

Manufacturing and Other Business Activity. Growth in District manufacturing activity slowed somewhat, but expectations remained positive. Production growth eased at both non-durable and durable goods-producing plants, particularly for food and metals producers. Growth in shipments and new orders also moderated, as did order backlogs, and employment levels fell slightly in August. Expectations for future factory activity rose slightly and remained solid.

Manufacturers' capital spending plans decreased slightly, but were still above year-ago levels. Transportation, professional, and high-tech firms reported fairly stable sales growth from the previous survey, and expected growth to edge higher in coming months. Several transportation contacts also mentioned continued high demand for construction products. Meanwhile, growth in wholesale trade fell back, with further easing expected.

Real Estate and Construction. District real estate activity expanded modestly in July and early August, supported by increased construction and stronger sales activity. Residential home sales edged up, with sales of low- and medium-priced homes remaining more robust than sales of higher-priced homes. Home prices increased further, and inventories rose slightly compared to the previous survey period. Residential real estate contacts expected home prices and sales to grow modestly and inventories to decrease slightly over the coming months. Housing starts increased slightly, and sales of construction supplies continued to increase at a moderate pace. Residential construction activity was expected to expand at a modest pace with stronger anticipated sales, starts, and traffic of potential buyers. Commercial real estate and construction activity strengthened further, with lower vacancy rates and increased sales and absorption; expectations were for moderate sales growth over the next few months.

Banking. Bankers reported steady overall loan demand, stable loan quality, and unchanged deposit levels relative to the previous survey. Respondents reported a minor decrease in demand for commercial real estate loans, and demand for consumer installment loans was somewhat softer. Most respondents reported steady demand for agricultural loans. Demand for commercial, industrial and residential real estate loans was slightly weaker compared to the previous survey. Most bankers indicated loan quality was unchanged compared to a year ago, and a majority of bankers expected loan quality to remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories. In addition, deposit levels stayed constant.

Agriculture. Improved growing conditions and the potential for record crop production this fall depressed prices and lowered farm income expectations since the previous survey period. The majority of the District's corn and soybean crops were rated in good condition but improved yields may not offset the effect that recent price declines will have on income. District farm income remained well below year-ago levels even with strong profits in the livestock sector due to rising cattle and hog prices. Demand for farm operating loans rose further but loan-to-value ratios remained relatively conservative. Still, some bankers reported loan repayment rates had weakened since last year and also noted a rise in loan renewals and extensions. Despite lower farm income, cropland values generally held steady during the growing season while strong demand for high-quality pasture supported modest gains in ranchland values.

Energy. District energy activity edged higher in July and early August. Drilling activity rose modestly, particularly for oil wells, and expectations on activity levels remained solid for the upcoming months. Crude oil rig counts reached their highest levels in seven years, while natural gas rig counts remained steady but low. Oil prices eased in early August, which contacts attributed to unchanged global supply and fewer supply threats in the Middle East. Despite slightly lower prices, local producers did not expect drilling plans to be negatively affected. Natural gas spot prices slid to the lowest level this year in the midst of mild summer temperatures and steady supply; however, prices remain higher than a year ago. Most energy contacts expected oil and natural gas prices to fall slightly through the coming months, but indicated capital expenditure plans remained solid.

Wages and Prices. Over the reporting period, prices rose modestly in most industries, and wage pressures increased slightly. Retail prices continued to increase moderately, and most retailers expected prices to continue to move up at a similar pace in the coming months. Raw materials prices in the manufacturing sector grew slightly, while manufacturers' selling prices maintained their slight growth rate from the previous survey period. Transportation input and selling prices rose modestly, and firms expected input prices to rise further in the near future. Restaurant menu prices continued on their moderate upward trend, reflecting rising food costs. Construction materials prices moved slightly higher and builders expected prices to continue to rise. Wage pressures were slightly higher in most industries. Many contacts reported difficulty in finding qualified workers across a range of skill levels and industries.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Reports on manufacturing activity were largely positive, without the scattered reports of weaker demand noted in the last report. Retail and automobile sales strengthened, and demand for nonfinancial services was stable or improved. Both home sales and commercial real estate leasing activity remained solid. Demand for oilfield services remained robust, and agricultural conditions improved. Prices increased modestly or held steady, as did employment levels. Outlooks remained optimistic.

Prices Most responding firms said prices increased slightly or held steady since the last report, with an uptick in the share of firms raising prices. Retailers and food producers noted continued price increases for meat and dairy and were beginning to see rising prices for vegetables. Ticket prices and fees moved up across the airline industry, while fuel costs decreased. Lumber, cement and brick producers reported increases in selling prices, largely due to increasing input costs. Scattered reports of selling price increases came from other manufacturers as well. Prices for accounting services were at high levels, with firms saying that they have been able to hike rates up over the past year with very little pushback. Legal fees were flat at average levels, and loan pricing was unchanged at competitive levels.

The price of West Texas Intermediate crude oil fell since the last report, as did the price of natural gas. Gasoline and diesel prices also fell over the reporting period.

Labor Market Employment at most firms increased or held steady, with some continued reports of difficulty in finding skilled workers. Reports of hiring were slightly less widespread than in the prior reporting period and came from airlines, auto dealers, some high-tech and transportation manufacturers, and manufacturers of construction materials (such as metals, lumber, and brick). Some construction-related manufacturers reported a shortage of truck drivers, with one contact noting they cannot compete with the wages offered in the energy sector and another saying the company is sponsoring commercial driver's license training in an effort to fill necessary positions. Retailers noted flat employment at existing stores but a couple of contacts noted continued hiring for new stores. Energy contacts continued to report a very tight labor market.

Reports of upward wage pressures were roughly as prevalent as in the last report. Staffing services firms noted that wage pressures remained strongest for skilled workers. Upward wage pressures were reported across the manufacturing sector, from semi-skilled positions in construction-related manufacturing to high-skilled positions in high-tech manufacturing. Energy industry contacts continued to note upward pressure on wages and bonuses.

Manufacturing Most manufacturers noted an increase in demand since the last report and outlooks were nearly unanimously positive. Primary and fabricated metals producers noted broad-based improvement in demand, with one contact saying that demand resulting from highway, commercial building, and energy-related work was particularly robust. Demand reports from lumber, cement, glass, and brick manufacturers were mixed but all contacts noted that business was up from a year ago.

Contacts in high-tech manufacturing reported that demand grew at a good pace over the past six weeks. Demand for semiconductors from the auto and industrial sectors was particularly strong, and one contact noted that there was some increase in demand from computer manufacturers that may be related to the termination of support for the Windows XP operating system.

Food producers said demand was flat over the reporting period but up slightly from a year ago. Chemical producers reported higher production rates. Refinery utilization rates increased and lower oil prices and a wider spread between domestic and international oil prices helped boost refiner margins in recent weeks. Outlooks of refiners and chemical producers remained positive.

Retail Sales Retail sales increased over the reporting period, but reports on the pace of growth were mixed; stronger growth was seen in stores benefiting from back-to-school shopping while food price inflation likely hampered grocery sales growth. According to three national retailers, demand in Texas continued to slightly outperform the nation as a whole. One contact noted that demand in areas of Texas with more energy-related activity was growing faster than in the rest of the state. Contacts' outlooks were positive, with growth expectations for 2014 versus 2013 ranging from low- to mid-single digits.

Automobile sales increased at roughly the same pace as during the last reporting period. Contacts noted that July was a great month for the industry; one auto dealer said it was their best month ever. Demand was up relative to a year ago. Contacts' outlooks for the rest of the year were good, with one contact expecting growth in the second half of the year to be better than in the first.

Nonfinancial Services Nonfinancial services firms reported demand was flat to up from six weeks ago, and all were optimistic in their outlooks for the months ahead. Demand reports from staffing firms were mixed, although contacts noting an increase said it was broad-based across sectors, with particular strength in direct hires for engineers, IT, and science positions. Demand for legal services was flat, although contacts said health care was a new bright spot. Two legal contacts anticipate increased work from energy-related projects and another noted additional compliance work for banks.

Transportation service firms said overall cargo volumes increased since the last report. Changes in shipping cargo volumes were mixed but notable growth was seen for steel. Railroad contacts reported an increase in year-to-date cargo volumes versus the same period a year ago. One contact noted that motor vehicle, lumber, metallic ore, and crushed stone volumes rose markedly in the western part of the U.S. over the reporting period. Small-parcel cargo volumes increased in July for the fifth consecutive month, with growth driven by retail trade (led by e-commerce) and wholesale durables.

Airlines reported that passenger demand was flat over the reporting period and up from a year ago. Domestic demand has been stronger than international demand, and one contact noted a large increase in corporate demand.

Construction and Real Estate Home sales grew at a steady to slightly slower pace since the last report, and sales were generally even with last year's levels. New home prices continued to rise, in part due to low inventories of finished lots and high construction costs, and contacts noted decreased affordability for entry-level buyers. Apartment demand remained strong, and contacts noted increases in occupancy rates and solid rent growth. Contacts said multifamily construction remained at elevated levels, and overall outlooks were optimistic.

Demand for commercial real estate remained solid. Office leasing activity was steady, and according to one contact construction activity slowed in Houston but increased slightly in Dallas. Demand for industrial space was strong, particularly in Dallas where leasing activity among mid-size tenants picked up. Outlooks remained generally positive.

Financial Services Loan demand remained soft but increased slightly from the last report. Credit-funded oil and gas and other commercial and industrial projects contributed to the uptick. Residential and commercial real estate loans and small business lending demand remained fairly stable. Mortgage lending grew only slightly, as credit conditions remained notably tight. Loan quality improved, and interest rates on loans remained low. Deposit volumes continued to grow despite deposit rates staying near zero percent. Compliance costs from federal- and county-level regulations were noted as increasingly burdensome by multiple contacts. Outlooks were more positive than at the time of the last report, in light of mounting evidence of a strengthening Texas business climate.

Energy Demand for oilfield services remained robust. Growth in Texas drilling activity over the reporting period was concentrated outside of the major basins. Margins for oilfield service providers were largely unchanged. Geological service firms continued to see strong demand. Outlooks for the rest of the year remained optimistic and were largely unchanged from the prior reporting period.

Agriculture The severity of District drought conditions eased over the reporting period, particularly in the Texas Panhandle and southern New Mexico. Texas' cotton crop was mostly in fair to good condition and harvesting started in some areas. Most crop prices declined over the past six weeks due to expectations of very high U.S. corn, cotton, and soybean production. Domestic demand for beef remained solid despite continued record-breaking cattle prices. Some cattle producers have started to rebuild their herds after the sharp liquidations that took place over the past few years, but progress has been slow because of historically high cattle prices.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to improve moderately during the reporting period of early July through mid-August. Overall price inflation remained quite modest, and wage pressures were well contained on net. Contacts indicated that retail sales growth ticked up. Demand for business and consumer services increased moderately. Manufacturing activity was mixed. Agricultural conditions were good in the District overall. Activity in real estate markets advanced, although growth in the residential sector slowed somewhat. Loan demand increased moderately.

Prices and Wages

Price inflation overall remained quite modest. Contacts noted that vigorous competition, including from online vendors, restrained overall retail price increases for nonfood and grocery store food products. Continued minimal price inflation for most food items blunted the effect of larger price increases for meat and dairy items. Some contacts reported that casual dining restaurants passed through the cost increases that resulted from higher minimum wages to their menu prices. In some areas, building supply prices increased. Final sales prices of Internet and digital media services have not changed so far this year and are not expected to change for the rest of the year.

In general, wages continued to increase at a modest pace. However, skilled construction workers experienced more-pronounced wage gains, as did certain technical employees in the computer industry. In addition, some contacts noted upward pressure on salaries for entry-level positions in the financial industry. In most areas, wage changes for lower-skilled workers—beyond the increases that resulted from higher minimum wages—were slight, but some contacts from faster-growing areas reported difficulty filling these positions, resulting in larger wage increases.

Retail Trade and Services

Retail sales growth ticked up since the previous reporting period. Contacts reported that consumers appeared more optimistic about the recovery. Sales of digital games and consumer smart-connected devices and wearables accelerated. Manufacturers have positive expectations for the computing device market, with plans for improvements in hardware and software, as well as new product launches. Auto dealers in Idaho noted that reductions in fuel prices spurred sales of pickups and large sports utility vehicles in recent weeks.

Demand for business and consumer services increased moderately. Businesses continued to invest in cloud services and security. Sales in the quick-service segment of the restaurant industry—coffee and doughnuts—increased relative to earlier in the year. Contacts reported that hotel vacancy rates in southern California declined and room rates rose. Advance bookings for the fall appear somewhat stronger than a year ago. Visitor volume in the first half of 2014 in Las Vegas was up over the same period a year earlier; contacts there cited strength in convention attendance as opposed to in tourism.

Manufacturing

District manufacturing activity was mixed during the reporting period of early July through mid-August. Demand for semiconductors strengthened, partially due to robust orders from other countries. Sales of finished steel products increased over a year earlier. Steel manufacturing capacity utilization during the last three months was at the highest level since 2008, reflecting strengthening demand from West Coast nonresidential builders. However, new orders for commercial aircraft in the first six months of this year were down from the same period in 2013. In addition, demand for finished wood products used in home building was relatively weak during the reporting period, and capacity utilization in this sector was relatively low. Aerospace manufacturing contacts noted that increasing tensions and broadening sanctions against Russia may reduce titanium supplies. Greater demand for composite materials from the aerospace, automotive, marine, and energy sectors as they substitute away from older materials may increase competition for limited supplies of these inputs.

Agriculture and Resource-related Industries

Contacts reported good agricultural conditions in the District overall. Excellent cotton and grain harvests are expected. Produce supplies are somewhat constrained due to the drought in California, and prices of some products, including grapes and nuts, are high. Growers in California were able to tap underground aquifers this year but are concerned about water sources next year should the drought continue. Contacts reported a spike in growers' shipping costs due to the diversion of locomotives to the Midwest to haul oil and gas rail cars to refineries in Texas. Construction activity in China and Japan sustained demand for timber as housing activity in the United States slowed.

Real Estate and Construction

Real estate activity advanced, but growth in the residential sector has slowed since the start of the year in many areas. Sales trends were mixed. Some contacts reported a slower overall pace of transactions, while others reported a pickup, especially for mid-priced homes. Prices increased in most areas, but generally at a slower pace than earlier in the year. Inventories of homes for sale were normal to somewhat elevated in selected areas. Contacts in Hawaii and Oregon reported rising rents and cited high home prices as a spur to demand for apartments. Residential construction activity for multifamily projects picked up. New and expanding medical practices boosted absorption rates for office space. In contrast, retail vacancy rates increased in some areas.

Financial Institutions

Contacts reported that credit availability was good, and overall loan demand increased moderately since the previous reporting period. Demand for consumer loans, including auto loans, unsecured credit, and home equity loans, improved slightly. Contacts expect demand to pick up further as consumer debt levels decline and owners regain equity in their homes. Demand for commercial real estate loans increased moderately. Some contacts reported strong demand for construction loans. Contacts reported that continued uncertainty on the part of small businesses regarding health-care costs is tempering their loan demand. Competition among lenders for customers with high-quality credit is intense. Credit quality improved since the previous reporting period, and loan delinquencies were low. Private equity financing in the Internet and digital media sector in June was at its highest level since the beginning of the recession.