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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

June 2013

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

June 2013

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Summary*

Overall economic activity increased at a modest to moderate pace since the previous report across all Federal Reserve Districts except the Dallas District, which reported strong economic growth. The manufacturing sector expanded in most Districts since the previous Beige Book. Most Districts noted slight to moderate gains in consumer spending and a moderate increase in vehicle sales. Tourism showed signs of strength in several Districts. A wide variety of business services expanded, and transportation traffic increased for producer, consumer, and trade goods. Residential real estate and construction activity increased at a moderate to strong pace in all Districts. Commercial real estate and construction activity grew at a modest to moderate pace in most Districts. Overall bank lending increased since the previous report. Credit quality and deposits increased, while credit standards were largely unchanged. Agricultural conditions remained mixed across Districts, as weather patterns varied. Overall activity in the energy sector was flat, and mining was down.

Hiring increased at a measured pace in several Districts, with some contacts noting difficulty finding qualified workers. Wage pressures remained contained overall, although several Districts reported a modest or moderate rise for selected occupations. Districts reported level prices to mild price increases; some manufacturers raised prices and some increases for input prices were noted.

Manufacturing

The manufacturing sector expanded in most Districts since the previous Beige Book. Activity increased in the Boston, Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts. Manufacturing contacts in the New York District reported steady business activity. In the Philadelphia District, manufacturers reported that orders and shipments have fallen somewhat, and in the Richmond District, manufacturing activity softened since the previous report, although there were scattered reports of improvement. Most firms in the Boston District are reasonably optimistic about the outlook, and many contacts in the Cleveland District believe that business conditions will continue to improve slowly during the second half of the year. However, the near-term outlook has waned somewhat in the New York District.

Continuing a theme from the previous report, strength in residential construction was a boon to manufacturers who supplied that industry. Firms in the Philadelphia District supplying the home-

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building sector reported strong orders, and the Cleveland District noted that suppliers to residential construction were among those seeing the strongest activity, while the Richmond, St. Louis, Dallas, and San Francisco Districts all reported increased demand for lumber or wood products. Growth in the auto industry was noted by the Philadelphia, Cleveland, Atlanta, Chicago, and St. Louis Districts, although the Chicago District reported that the auto industry grew at a more moderate pace. Producers of inputs for the oil and gas industries saw growth in the Philadelphia, Cleveland, and Atlanta Districts. The food processing industry grew in the Philadelphia and Dallas Districts. Electrical equipment saw increased activity in the Boston and San Francisco Districts but lower activity in the Philadelphia District. Demand for fabricated metals expanded in the Philadelphia District, while specialty metal manufacturers in the Chicago District reported small increases in new orders, noting that their customers had become more cautious. Fabricated metals producers in the Dallas District reported that demand remained steady for both private and public projects.

The defense industry experienced weakening activity in the Cleveland District, and a producer of defense equipment in the Richmond District cited government sequestration and orders being canceled or delayed. Steel production was mixed. Steel producers in the Cleveland District reported that shipping volume was stable but remains below levels seen early in the first quarter, and both the Cleveland and Chicago Districts noted an increase in imports of steel. The St. Louis and San Francisco Districts reported an increase in demand for steel. Lower demand for primary metals was noted in the Philadelphia and Dallas Districts.

Consumer Spending and Tourism

Most Districts noted that consumer spending increased during the reporting period, ranging from slight to moderate gains. Retail activity in the Boston, Philadelphia, and Dallas Districts was characterized as modest or moderate, while the Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco Districts reported slight growth. Retailers in the New York District reported that sales were tepid in April but picked up in May. Meanwhile, the Richmond District noted that sales were flat during the reporting period. The Boston, New York, Philadelphia, Cleveland, Richmond, Chicago, and Minneapolis Districts reported that late winter weather slowed retail sales; the Chicago District noted that sales picked up once warmer weather arrived. Demand for home furnishings and furniture was strong or picked up in the Boston, Cleveland, and Richmond Districts; however, furniture sales slowed in the Chicago District. The Kansas City District reported that appliance purchases were particularly strong. Inventories were generally at desired levels in the

New York and Chicago Districts. The outlook for retail spending was positive in the Kansas City and Dallas Districts, while more cautious expectations were noted in the Boston, Cleveland, and St. Louis Districts.

Vehicle sales generally increased moderately across Districts. The New York, Richmond, and San Francisco Districts reported that sales remained strong or at high levels. Meanwhile, the Minneapolis District reported modest growth in auto sales, and contacts in the Kansas City District reported that sales declined. Used car sales increased in the Chicago and St. Louis Districts, while the Richmond District noted that the availability of used cars improved. Meanwhile, the New York, Cleveland, and San Francisco Districts reported a shortage of used cars or a decline in used car sales. Inventories increased in the Cleveland and Kansas City Districts, while inventories were lean in the Philadelphia District. More respondents to a St. Louis District survey indicated that inventories were too high than too low. The Philadelphia, Cleveland, St. Louis, Kansas City, and Dallas Districts noted that the outlook for future sales was generally positive.

Tourism showed signs of strength in several Districts. The Boston District reported increased tourism revenues but noted that attendance at museums and attractions was down, perhaps due to weather affecting leisure travel plans. The New York District noted that tourism activity was mixed but fairly robust since the previous report. The Richmond District reported that unseasonably cool weather negatively affected some resorts. Leisure and international travel continued to experience healthy demand in the Atlanta District. Extended winter weather boosted skiing in parts of the Minneapolis District. The San Francisco District reported that travel and tourism activity in Hawaii was robust, while activity in southern California declined a bit. Hotel occupancy and room rates were higher in the Atlanta and Kansas City Districts. Advanced bookings and the overall outlook for summer travel were optimistic, but the San Francisco District noted some concern that the flow of international visitors could taper off in coming months due to potential weakness in the global economy.

Nonfinancial Services

Nonfinancial services activity grew at a modest to moderate pace since the previous report. The Philadelphia District noted steady gains, while moderate growth was reported in the Minneapolis District. The San Francisco District saw flat demand for health care and legal services. The Boston District noted sluggish activity in information technology services, while the Kansas City District saw increased demand for high tech services. Information technology, distribution, business support, health care, engineering, and hospitality firms expanded in the St. Louis District. The Richmond District reported "renewed vigor," especially for technology and architectural firms. The Dallas District saw strong demand for accounting services and modest increases in legal services.

Transportation activity increased. The Cleveland District noted strong activity, while both import and export traffic increased in the Richmond District. The Atlanta District reported increased movement of petroleum products and wood products but decreased shipments of grain products, metallic ores, military machinery, and transportation equipment. The Dallas District saw increased cargo and container volumes. The Kansas City District reported slower transportation activity due to poor weather conditions. Minneapolis District contacts expected small increases in freight traffic in the second half of the year.

Real Estate and Construction

Residential real estate and construction activity increased at a moderate to strong pace in all Districts. Several Districts reported that higher demand and low inventory of homes available for sale are resulting in multiple offers on properties. Almost all Districts reported higher home sale prices. The Kansas City District reported concerns that appraisals were not keeping pace with price increases. Foreclosed properties available for sale have declined significantly in the San Francisco District. The rental market remains tight with noticeable increases in rental rates in the New York District. Residential construction increased across all of the reporting Districts. Several Districts noted increases in multifamily projects. The Minneapolis District reported that many markets saw huge percentage increases in building permits from a year ago. Builders are cutting back on discounting in the Cleveland District. The Richmond District noted that increased construction has pushed up the price of building lots, and the Atlanta District reported that the lack of available lots has constrained building activity. The Philadelphia District commented that builders are facing problems, as the long housing recession has disrupted the supply chain for materials and the pool of skilled workers.

Commercial real estate and construction activity expanded at a modest to moderate pace in most Districts. The New York District reported that the Manhattan market is particularly robust. The Chicago District noted that an increase in demand for leasing was pushing up commercial rents, with strong demand from the health care sector. However, a market in the Boston District indicated no change in commercial rents or vacancy rates since the previous report. A market in the Richmond District had more hotels complete construction, and retail space was absorbed at a faster pace. Commercial construction continues to expand. The Philadelphia District said that most construction activity is related to ongoing demand for industrial warehouse space, higher education facilities, and public utility infrastructure. The Atlanta District reported that most activity was coming from build-to-suit projects. The Dallas District noted an increase in office building construction. The Cleveland District said that many projects are in development, but new inquiries are weak. The San Francisco District noted that in some regions, construction of publicly funded commercial projects has slowed due to funding constraints from state and local governments.

Banking and Finance

Overall bank lending increased modestly since the previous report. The Cleveland District noted that consumer demand for auto loans increased and that demand for residential loans shifted from refinancing to new purchases. The Chicago District indicated modest growth in business loan demand. The Dallas District reported robust growth in residential mortgages and auto lending with continued weakness in corporate transactions. The New York District saw an increase in demand for all types of loans except commercial and industrial loans, where demand was unchanged. San Francisco District banking contacts reported ample liquidity and competition among lenders for well-qualified business borrowers but limited credit availability for small businesses. The Philadelphia District noted slow loan growth, and the Atlanta District reported weak loan activity.

Credit quality improved, on balance. The New York and Cleveland Districts reported widespread decreases in delinquency rates for business and consumer loans. Several Districts reported that credit standards have not changed much since the previous report.

Agriculture and Natural Resources

Agricultural conditions remained mixed across Districts, as weather patterns varied. Recent rains brought drought relief to the Atlanta, Chicago, and Minneapolis Districts but delayed or slowed plantings in the Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City Districts. Meanwhile, drought conditions worsened in the Dallas District, and contacts in the San Francisco District remained concerned that limited water availability in parts of the District could pass through to lower seasonal hiring and reduced agricultural output in coming months. Farm incomes increased in the Minneapolis District, while farm income growth softened in the Kansas City District. Well over 90 percent of the St. Louis District’s winter wheat crop was rated in fair or better condition, but winter wheat crop conditions deteriorated further in the Kansas City District, with much of the crop in relatively poor condition. Forage crops were having a great spring in the Richmond District, and pastures and hayfields were in good condition.

Overall activity in the energy sector was flat, and mining was down. The San Francisco District saw decreased natural gas drilling. The Cleveland, Atlanta, and Kansas City Districts noted that oil activity was flat and that natural gas activity was up. The Minneapolis District reported that the energy sector remained strong. The Dallas District said that drilling activity was up. Coal mining was down slightly in the Cleveland and St. Louis Districts, while coal mining in the Kansas City District was steady. Iron ore mining production was down in the Minneapolis District.

Employment, Wages, and Prices

Hiring increased at a measured pace in several Districts, with some contacts noting difficulty finding qualified workers. Labor markets continued to improve in the New York District. The Boston District reported that with only a few exceptions, businesses were not hiring much beyond replacement, while labor markets in the Richmond District were uneven. Labor markets continued to improve slowly in the Chicago District. The St. Louis District reported that employment levels over the past three months have stayed the same or increased for a majority of contacts. Labor markets tightened in the Minneapolis District, particularly near the oil boom area in western North Dakota and eastern Montana, although some easing in the pace of growth was noted over the past six months. Labor markets were steady in the Dallas District. The New York, Philadelphia, Richmond, Minneapolis, Kansas City, and Dallas Districts cited examples of contacts reporting difficulty finding qualified people to fill vacancies. The Richmond and Cleveland Districts noted that new hours of service regulations may exacerbate difficulty finding truck drivers. A number of Districts reported solid demand for workers in information technology, health care, and engineering. The Richmond and Atlanta Districts cited employment reductions due to cutbacks in government orders or staffing at government offices. Among staffing services firms, billable hours increased in the Philadelphia District but decreased in the Boston District. Meanwhile, staffing services were steady in the Dallas District and mixed in the Cleveland District. The outlook for hiring was generally positive in the Richmond and Minneapolis Districts.

Wage pressures remained contained overall, though several Districts reported a modest or moderate rise for selected occupations. The Cleveland, Minneapolis, Dallas, and San Francisco Districts indicated that overall wage pressures were subdued. The Philadelphia and Kansas City Districts reported that wage pressures increased slightly, while reports were mixed in the Richmond District. The New York District noted that although qualified job candidates were said to be increasingly hard to find, most employers were holding the line on compensation. Exceptions included increased wages for home builders in the Philadelphia District, and legal and financial services in the Dallas District. Contacts in the Richmond, Chicago, and Kansas City Districts expressed concern over the effect of health care reform on labor costs. The Philadelphia and Cleveland Districts reported increased costs for health insurance.

Districts reported level prices to mild price increases. The Boston District reported that aside from food, input prices were generally unchanged, although a few manufacturers have raised their own prices. Manufacturers in the Richmond District indicated that finished goods prices grew at a somewhat quicker pace. The Kansas City District reported that while finished goods prices remained fairly flat, manufacturers planned to raise finished good prices over the next few months to partially offset higher input costs. However, most firms in the Atlanta District continued to report having little pricing power, and the Chicago District noted that pass-through to downstream prices remained limited. The Philadelphia and Cleveland Districts reported higher construction materials prices. Meanwhile, the San Francisco District noted that prices for cement, logs, and lumber edged up, while prices for wood products, steel, and some metals declined. Gasoline prices spiked higher in the Minneapolis District, and several Districts noted that natural gas prices increased since the previous report. The Dallas District reported that most contacts expect price increases to remain modest for the remainder of the year.

FIRST DISTRICT – BOSTON

First District business contacts generally report year-over-year increases in economic activity, although some—notably in software and information technology services and staffing —indicate the pace of growth is slowing. Retailers mostly say demand is recovering well after weather-related softness during the winter; manufacturing contacts' sales are also ahead of last year. With only a few exceptions, businesses are not hiring much beyond replacement. Aside from food, input prices are generally said to be unchanged, although a few manufacturers have raised their own prices. The outlook is fairly positive, with most respondents expecting the current pace to continue or pick up.

Retail and Tourism

Retailers are rebounding from the negative impact of harsh and prolonged winter weather earlier this year, but the late arrival of warmer spring weather has affected the sales of some seasonal items. Merchant contacts report April year-over-year comp-store sales ranging from a 0.5 percent decline to a 9 percent increase. Demand is strong for women's apparel, home furnishings, and furniture. Respondents say consumer sentiment seems a bit more positive, especially over the last month or so, yet overall expectations remain cautious. Contacts continue to predict low-single digit sales increases for 2013.

Greater Boston tourism revenues are up after softer performance attributed to harsh winter weather earlier in the year. Through Q1 2013, hotel revenues are up 2 percent year-over-year, and occupancy rates are also up 2 percent. Restaurants revenues are 1.5 percent ahead of a year ago. Much of this increase is attributed to strong domestic and foreign business travel. Attendance at museums and attractions is down, perhaps due to weather affecting leisure travel plans. Boston-area tourism was reduced by the marathon bombings as some groups were forced to reschedule visits.

Manufacturing and Related Services

Three-quarters of contacted manufacturers report higher sales compared with the same period a year ago. Geographically, firms say that Europe remains weak and that both the U.S. and Asia are growing but slightly below expectations; by contrast, one contact called Europe a bright spot because it exceeded somewhat low expectations. An electrical equipment manufacturer reports low to middle single-digit growth across the board except for their products going into residential construction, which consistently rack up double-digit growth versus the year-earlier period. Several contacts, including the electrical equipment manufacturer and a supplier to the semiconductor industry report unusually volatile month-to-month readings.

All of our contacts report little or no pricing pressure on the input side and several say they were able to make price increases stick on the sell side. A dairy firm says food prices are up because of drought conditions, but notes that recent rainfall may change that. Winter storms had some temporary effect on energy prices for some firms.

Five of eight contacts are hiring, although only one is hiring in any significant way and their hiring is outside the U.S. Of the contacts not adding to headcounts, only one is laying off workers; this firm—a maker of parts for machinery—is planning to reduce headcount by 2 percent to 3 percent over the next six months on top of a similar reduction over the last six months.

Six of eight respondents are increasing capital expenditures and one of the others says its expenditures are low only relative to some exceptional investments in 2012. One contact in the electrical equipment business says they have “too much cash” and are looking for investments. Firms cite mixed opportunities to acquire other companies, with one having a “full pipeline” of acquisitions and another saying there is nothing to buy.

Three-quarters of contacts are reasonably optimistic about the outlook. Several who reported some softness in the winter said their customers were talking about demand growing in the second half.

Software and Information Technology Services

New England software and information technology services contacts generally report continued sluggishness through May to date, with year-over-year revenue increases moderating further in the most recent quarter to the low or middle single digits. Two contacts attribute the slowdown to economic uncertainties in the U.S. and Europe, which they say have led many manufacturers to delay the execution of long-term license agreements. A healthcare contact, by contrast, attributes the dip to the ending of federal stimulus funding for electronic health records software. Only one contact, a provider of cloud-based payment and banking software, reports accelerated growth, with revenues in the first quarter up more than 15 percent relative to Q1 2012. Lackluster activity has led the majority of contacts to slow the pace at which they are hiring; many now plan to maintain their current headcounts through the end of the year. Selling prices and capital and technology spending are largely unchanged. Looking forward, software and IT firms in New England remain cautiously optimistic, with most expecting more robust growth in the second half of 2013.

Staffing Services

First District staffing contacts report weaker-than-expected demand in recent weeks, with billable hours generally falling towards their year-earlier levels. The dip in activity reportedly reflects a leveling off in the IT sector and downticks in temporary and permanent hiring in the light industrial and manufacturing sectors. There is, however, renewed activity in the healthcare sector, with one contact reporting a substantial increase in demand for ambulatory nurses. In terms of labor supply, candidates with high-end skill sets, such as mechanical and electrical engineers and software developers, remain hard to find. Nevertheless, bill rates and pay rates have gone largely unchanged in 2013. Looking forward, staffing contacts are generally less upbeat than they were three months ago, with most expecting only modest growth through the end of 2013.

Commercial Real Estate

Commercial real estate leasing and sales activity held roughly steady or improved in recent weeks in the First District. A Hartford contact notes a modest increase in foot traffic for downtown and suburban office space but no significant changes in rents or vacancy rates since the last report, virtually no construction, and a flat industrial market. In Boston’s inner-suburban corridor, office rents are up and vacancies down. In Boston proper, prime retail rents are up at least 5 percent over the quarter; office fundamentals continue to improve across the city, very slowly in the financial district and at a brisker pace in the Seaport/Innovation district. Leasing volume dipped slightly in downtown Providence and mostly improved in suburban Rhode Island, with rents about flat. Defense-industry tenants in southern Rhode Island are reducing their space needs in response to federal spending cuts, moves that are likely to put downward pressure on rents in the local submarket in coming months. In Portland, retail leasing activity picked up and apartment rents rose while the office leasing market was flat. Business confidence in southern Maine reportedly improved but no major expansions or hiring plans were announced.

Values for prime downtown Boston properties—including office buildings and apartment buildings—continue to rise, leading to talk of overheating. Investors are purchasing empty retail space in Boston for the first time since the onset of the Great Recession. Continuing a recent trend, investors are increasingly purchasing prime, well-leased commercial properties in Hartford, Providence, and Portland, markets which are seen as value propositions in comparison with higher-priced Boston. So far in the cycle, however, new construction in these markets has been very limited. Commercial real estate loan demand rebounded at one regional lender as competition for such loans drove mortgage interest rates to new lows.

Contacts are mostly optimistic that commercial leasing fundamentals will continue to improve at least slowly in the coming months. The outlook includes upside potential for absorption in Providence, Hartford, and Boston based on deals in progress and current employment trends. In Rhode Island, however, the upcoming gubernatorial election and state and local budget deficits—as well as the defense cutbacks noted above—present downside risks. In Connecticut, negative effects of sequestration on defense-industry tenants seem inevitable, but the commercial leasing implications are uncertain.

Residential Real Estate

Throughout much of the First District, the median sales price of single-family homes and condos rose year-over-year in March and April. Sales of single-family homes also increased from a year earlier in most of the region during April, after weaker sales results in March. According to contacts, demand for homes remains strong due to low interest rates, relatively low prices, and improving confidence among buyers. However, contacts continue to report that shrinking inventory levels are slowing sales and placing upward pressure on prices. In Massachusetts and the Greater Boston area, dwindling inventory levels have been a significant source of concern; contacts in the other states also express worry about falling inventory levels, but to a lesser extent. Several respondents note that much of the housing recovery has been centered around urban areas while rural areas have experienced more modest improvements. Within the Greater Boston area, realtors have observed an increasing frequency of multiple offers on properties.

Contacts anticipate that single-family home and condo prices will continue to rise over the next several months, with inventory levels a significant factor determining the degree to which sales can grow. Overall, contacts say they feel optimistic about the trajectory of the housing market and believe the market will continue to recover as general economic conditions improve.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has continued to expand at a moderate pace since the last report. Price pressures have abated somewhat among manufacturers, though they remain more widespread in the service sector; contacts continue to report that selling prices are steady to up modestly. Labor market conditions continue to improve, and businesses increasingly report difficulty finding well-qualified workers. Retailers report that sales were tepid in April but picked up in early May, and new automobile sales have remained strong. Tourism activity has been mixed but generally robust. Commercial and residential real estate markets have strengthened further since the last report. Finally, credit conditions improved across the board, with bankers reporting increased loan demand, widespread narrowing in loan spreads, and declining delinquency rates across all loan categories.

Consumer Spending

Retailers report that sales were generally soft in April but strong in early May. One major retail chain reports that same-store sales were somewhat below plan in April—partly due to cool weather—but picked up in early May; another indicates that sales have been running somewhat ahead of plan in both months. Both retailers indicate that their New York City stores performed relatively strongly. Two malls in upstate New York report that business was sluggish in April, partly due to cool weather, but has been brisk in the first half of May; a number of new stores are scheduled to open in the weeks ahead. Inventories remain at desired levels, prices are characterized as steady, and no unusual discounting is reported.

Auto dealers in the Buffalo and Rochester areas report that new vehicle sales were robust in April and early May, running well ahead of comparable 2012 levels. On the other hand, sales of used automobiles softened further and are down from a year earlier; this is partly attributed to better deals on new vehicles. Wholesale and retail credit conditions for auto purchases remain in good shape.

Tourism activity has been mixed but generally fairly robust since the last report. Manhattan hotels report that business was steady at a strong level in April and picked up in early May; occupancy rates have been roughly on par with a year ago, with room rates up 2 to 4 percent. Bookings for Memorial Day weekend are described as very strong. Albany area hotels indicate a pickup in business in April, with occupancy and room rates rising for the first time since last summer. On the other hand, overall attendance at Broadway theaters remains tepid, running 10-20 percent below a year ago in April and the first three weeks of May; this mainly reflects a reduction in the number of shows running. Finally, consumer confidence in the region has been mixed: The Conference Board's April survey of residents of the Middle Atlantic states (NY, NJ, Pa) shows confidence surging to its highest level in more than a year; however, Siena College's survey of New York State residents shows consumer sentiment little changed in April, at its lowest level since then end of 2011.

Construction and Real Estate

Residential real estate markets in the District have strengthened further since the last report. New York City's home sales and rental markets have shown further signs of tightening—on both the sales and rental sides. Both apartment sales prices and transaction volume continue to run well ahead of a year ago in Manhattan and especially in prime areas of Brooklyn, reflecting a low inventory of available units. The rental market also remains tight: rents continue to rise at a roughly 6-7 percent annual rate in Manhattan and at a somewhat faster pace in Brooklyn; the Queens rental market is also seeing a pickup. Long Island, where the housing market had been generally flat until recently, has seen a recent sharp pickup in pending home sales and a drop in the inventory of homes for sale. Northern New Jersey continues to see modest, steady improvement in its housing market. With a relatively low inventory of new homes, prices are rising gradually; however, a sizable overhang of distressed properties is reported to be restraining price appreciation. A real estate contact in western

New York reports increasingly strong market conditions: inventories have fallen, bidding wars have become increasingly common, and home prices have been rising.

Commercial real estate markets across the District have also shown signs of improvement thus far in the second quarter. Manhattan's office market has been particularly robust: vacancy rates are little changed, despite a sizable block of new development coming onto the market; asking rents are up roughly 5 percent over the past year. Elsewhere in the region, office markets are mostly steady to stronger: vacancy rates fell in Long Island, northern New Jersey, Rochester and Albany and were little changed in the Long Island and Buffalo markets. One exception is the Westchester/Fairfield county market, where vacancy rates have risen to a ten-year high, and office rents have been declining. The market for industrial space has been steady to stronger: vacancy rates have declined modestly in the Long Island and Westchester/Fairfield markets and held relatively steady in northern New Jersey and across upstate New York.

Other Business Activity

Manufacturing contacts again report steady business activity in recent weeks, while their optimism about the near-term outlook has waned somewhat. In contrast, contacts in other sectors generally report some pickup in business activity and employment; they also express increased optimism about the business outlook, and a growing number of them plan to add workers and increase capital spending. Price pressures are mostly reported to be steady and moderate in the manufacturing sector but more widespread among service-sector businesses; still, relatively few service-sector contacts say they are increasing their selling prices.

The labor market continues to improve gradually but steadily. A growing proportion of business contacts say they are adding workers, except in the manufacturing sector, where employment is reported to be little changed. Two major employment agencies report that hiring activity has been fairly robust, particularly for information technology workers. There is also reported to be fairly strong demand in fields such as auditing and compliance. Large financial firms, typically a major source of jobs in New York City, are reported to be hiring only sporadically. While the temp business remains strong, a growing number of firms are hiring full-time workers. Although qualified job candidates are said to be increasingly hard to find, most employers are still said to be holding the line on compensation, though some are becoming more negotiable.

Financial Developments

Small- to medium-sized banks report an increase in demand for all types of loans except for commercial & industrial loans, where demand was unchanged. Bankers report little change in demand for refinancing, on balance. Contacts report that credit standards are unchanged across all loan categories. Bankers continue to indicate narrowing in spreads of loan rates over costs of funds for all loan categories—most notably in commercial mortgages. Interest rates on deposits continue to decline, on balance. Finally, bankers report fairly widespread decreases in delinquency rates for all loan categories.

THIRD DISTRICT – PHILADELPHIA

After many months at a generally more modest pace of growth, aggregate business activity in the Third District has accelerated somewhat to a moderate pace of growth during this current Beige Book period. In particular, the growth rate of residential construction, general retail sales, general services, staffing services, and tourism appears to have accelerated somewhat from a more modest rate of growth to join auto sales and existing home sales at a moderate growth rate. Commercial real estate leasing continued to expand at modest rates, while commercial real estate construction continued to expand only slightly. Manufacturing appears to have declined somewhat after expanding slightly last period. Loan volumes at Third District banks resumed growing slightly across most categories, while credit quality continued to improve. General price levels, as well as wages and home prices, were reported to have increased slightly overall – similar to the last Beige Book period.

The overall outlook for growth has improved slightly since the last Beige Book to anticipate a continuation of the current moderate pace of growth. Despite lingering uncertainties, contacts expressed greater confidence in the underlying strength of the economy, especially as the housing market recovery begins to gain strength. Firms are more comfortable reinvesting where necessary; however, many continue to hold off on major expansion plans of capital and labor until the recovery gains more momentum.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported that orders and shipments have fallen somewhat. The makers of food products, lumber and wood products, paper products, and fabricated metals have reported gains since the last Beige Book. The makers of primary metals, electronic equipment, and instruments reported lower activity. Reports were mixed for makers of industrial machinery. Firms supplying the home-building sector reported strong orders and ongoing hiring to keep pace. Other contacts attributed growing demand to the oil and gas, auto-related, and aerospace sectors. Firms supplying other sectors reported flat or weakened demand. Employment levels were generally reported as flat to down.

Across all sectors, Third District manufacturers remained optimistic that business conditions will improve over the next six months. One contact from a housing-related manufacturer reported that orders from contractors were 22 percent ahead of last year; still, another stated that “firming in the housing market is key to a more favorable outlook” from his firm’s dealers. Overall, firms have somewhat increased their expectations of future hiring and their plans for capital spending since the last Beige Book.

Retail. Third District retailers reported moderate growth overall. Since Easter sales shifted to March this year, April began with a continuation of modest growth; however, retailers reported strong sales for Mother's Day weekend. Restaurants were booked with moms and their families, which generated heavy traffic and sales for adjacent retailers. Volatile spring temperatures created challenges for apparel retailers as shoppers shifted their interest between winter and summer lines with the rise and fall of the thermometer. Promotional sales remained critical for producing the best results for many retailers.

Auto dealers have continued to report a moderate pace of sales growth since the last Beige Book, with some weekly variability. Sales in the Philadelphia market were described as strong. Dealers continued to maintain lean inventories and have retained a positive outlook. However, hiring plans remain tentative and modest; expectations of rising health-care costs further constrain the willingness of dealers to expand their workforces.

Finance. Overall, Third District financial firms have reported slight increases in total loan volume since the previous Beige Book. Banking contacts cited stronger demand for C&I loans and real estate loans – commercial and residential. Credit card loan volumes were relatively unchanged, while reports of other consumer lending were mixed. A nascent housing recovery in many Third District markets has increased demand for new mortgages and the ratio of purchases to refinancings. A small amount of hiring has been prompted at banks and bank servicing companies by the moderate recovery, as well as by changing compliance regulations. Banking contacts reported little change in lending standards overall; however, a few banks reported some easing for commercial real estate loans. Most banks continued to report improving credit quality. Many banks cited strong competition within their local markets. Financial institutions remain generally optimistic about future growth.

Real Estate and Construction. Following a little softness, homebuilders throughout most of the Third District resumed a moderate growth of contracts signed for new construction. Contracts signed from January through May – "Five good months in a row!" one builder exclaimed – have generated significantly greater construction activity than last year for many builders, large and small. Significant cost pressures face builders as the long housing recession has disrupted the supply chain for materials and the pool of skilled workers. In addition, some builders have faced labor shortages due to higher wages offered for certain trades that are in demand for the Hurricane Sandy recovery. Residential brokers reported moderate activity during April and May for the Third District overall. Existing home sales that closed during the period varied geographically with strong growth reported in the Philadelphia market. Brokers were also pleased by even stronger growth of sales contracts pending, which was more widely reported throughout the District. The estimated months' supply of the existing inventory of homes continued to fall significantly. Brokers still expect that a shadow inventory of homes held by reluctant, if not underwater, owners will emerge as prices begin to rise once more.

Nonresidential real estate contacts continued to report little change in the modest pace of overall leasing activity and slight growth of construction. New office construction remains limited to an occasional build-to-suit client, while most construction activity is related to ongoing demand for industrial warehouse space, multifamily residential units, higher education facilities, and public utility infrastructure. Contacts continue to report the presence of too many firms chasing too few projects, such that margins are squeezed thin on winning bids. Overall, contacts expect slow steady growth but remain optimistic, citing greater prospect activity and a greater willingness to make decisions.

Services. Third District service-sector firms are reporting a moderate pace of growth overall – a bit stronger than the last Beige Book. On the heels of a strong winter/spring season, resorts in the Poconos are entering their summer season with strong bookings and many sold-out weekends. Stronger cash flows are allowing properties to reinvest by refurbishing and adding new amenities. At least one major new resort is making plans to enter the market. Early bookings are also up along the shore in Delaware and New Jersey. In the wake of Hurricane Sandy, the state of New Jersey has launched a sizeable marketing campaign to remind people that most of the shoreline tourist area remains intact and ready for vacationers.

In other sectors, staffing firms have reported strong increases in billable hours – an improvement since the prior Beige Book. Staffing contacts cited no wage pressures and expressed more positive outlooks for future growth. Other service-sector firms reported steady growth and credited the recovering housing markets with strengthening and expanding the base of consumer spending. Firms are hiring, although not aggressively. Overall, service-sector firms remain generally optimistic about future growth.

Prices and Wages. Overall, price levels continued to increase slightly, similar to the previous Beige Book. Manufacturing firms continued to report slight overall increases for prices paid and slight overall decreases in prices received. Auto dealers reported no changes in pricing. Despite passing along some costs, homebuilders continued to face tight margins with lumber and skilled labor commanding high prices. Most real estate contacts reported stable, if not rising, prices for lower priced homes, and contacts in some markets noted stable prices for higher priced homes. Wage pressures remain constrained, according to most contacts other than homebuilders. Rising costs associated with medical insurance benefits remain a concern for many employers.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a moderate pace since our last report. Manufacturing orders and production were steady or higher. The momentum seen in residential construction since the beginning of the year, including multifamily, has been maintained. In nonresidential construction, projects are moving very slowly from the development to the construction phase. Retail sales were below our contacts' expectations during April, while new motor vehicle sales posted moderate gains on a year-over-year basis. Conventional and unconventional natural gas and oil production was flat, and drilling has declined during the past few months. Output at coal mines trended lower. Freight transport volume exceeded projections made at the beginning of the year. Demand for business credit increased more slowly, whereas large numbers of consumers continue to apply for auto loans.

Hiring picked up in the manufacturing and freight transport sectors. Reports by staffing-firm representatives on the number of job openings and placements, primarily in the service industries, were mixed. Wage pressures are contained. Input and finished goods prices were stable, apart from increases in construction materials and natural gas.

Manufacturing. Reports from District factories indicated that new orders and production were largely stable or increased during the past six weeks. Domestic sales were stronger than those to offshore customers, with declines in Europe being more acute than in China. Companies seeing the strongest activity were suppliers to the oil and gas, residential construction, and transportation industries. Defense contractors and suppliers to the coal industry experienced weakening activity. Compared to a year ago, production levels were mixed. Steel producers and service centers reported that shipping volumes were stable but remain below levels seen early in the first quarter. Several contacts expressed concern about the quantity of steel produced in China and Europe that is now being imported into the United States. Motor vehicle production at District plants rose at a robust pace during April on a month-over-month and year-over-year basis. Looking forward, many of our contacts believe that business conditions will continue to slowly improve during the second half of the year.

Capacity utilization rates stood within their normal ranges. Several manufacturers noted that they have considerable excess capacity. For the most part, finished goods inventories are in-line with demand. Capital expenditures are on plan for the fiscal year. Outlays are primarily allocated for productivity enhancements and equipment replacement. Little capacity expansion is planned due to lingering uncertainty about future demand. Raw material and finished goods prices were flat or trended lower. Our respondents said that their ability to raise prices during 2013 is likely to be limited. We heard numerous reports from manufacturers who intend to increase payrolls at a modest to moderate pace during the next few months. Wage pressures are contained, while premiums for healthcare insurance spiked higher.

Real Estate. Sales of new and existing single-family homes trended higher and they were above year-ago levels. Our contacts attributed this trend to low interest rates, favorable prices, and an improving labor market. One builder commented that young people are less inclined to buy a house than were their parents due to a perceived lack of value and a desire for mobility. He believes that this reluctance may put downward pressure on the housing industry for years to come. New home contracts were found mostly in the mid- to higher-price-point categories. Demand for multifamily housing remains strong. Builders expressed confidence that the turnaround in the housing market will persist in the upcoming months. However, they cited difficulty in obtaining financing and low inventory as barriers to more robust growth in their industry. List prices of new homes increased by as much as 10 percent in certain markets this year due primarily to rising construction costs. Builders have cut back on discounting.

Nonresidential builders told us that while inquiries have weakened, there were still a large number of projects in the development phase. However, backlogs are lower than what most builders would like. The strongest activity was in multifamily housing, energy, and manufacturing. The office and large-footprint retail segments were relatively weak. Our contacts are cautious about near-term activity. While they expect some growth, especially in the second half of the year, many of their clients are not in a rush to move projects into the construction phase. A substantial rise in commercial and industrial leasing is seen as a positive indicator by builders. They believe that some of their clients may commit to new building in the upcoming months.

There were many reports about large price increases for building materials, especially lumber (softwoods) and drywall. Residential builders felt the brunt of these increases. Little change in payrolls or wages was reported. Hiring for the prime construction season is expected to be limited. Subcontractors are having difficulty obtaining working capital and attracting skilled labor.

Consumer Spending. Most retailers reported that April sales fell short of expectations. Some of our contacts cited colder-than-normal weather for holding down consumer spending. Others saw a pickup in purchases of large home goods such as furniture and exercise equipment. On a year-over-year basis, volume was up slightly. Going into summer, sales are projected to be modestly higher, when compared to the same time period last year. Vendor and shelf prices held steady. A food retailer commented that his customers remain sensitive to changes in gasoline prices, with any hike in gas prices negatively impacting his sales. Capital expenditures were on plan for the fiscal year. Monies are allocated primarily for improvements to distribution systems and new store construction. No hiring is anticipated, except for staffing new stores.

Year-to-date sales of new motor vehicles showed a moderate increase during April compared to the same time period a year ago. Buyers preferred smaller, fuel-efficient cars, crossovers, and SUVs, and the number of customers opting to lease continued to trend higher. Large pickup trucks were big sellers in regions with significant shale gas activity. New vehicle inventories are rising, but a majority of dealers said that they are satisfied with their inventory positions. Our contacts are cautiously optimistic about sales prospects for the year, with a few projecting 5 percent growth over 2012. Used vehicle purchases declined in April on a month-over-month basis. Several dealers commented that it is difficult to find a quality used car. However, they believe that as lease rollovers start to come in this year, the availability of low mileage used cars will improve. Two of our contacts noted that financing activity in the subprime market is starting to pick up. Dealers want to hire a small number of sales and technical personnel, but they are having a difficult time finding qualified workers.

Banking. Demand for business credit has increased, but at a slower rate, since our last report. Although loan requests originated from many sectors, commercial real estate and industrial production stood out. A few bankers commented that insufficient collateral was the primary reason behind small business owners being denied credit. Consumer credit demand rose slightly, especially for auto loans. Installment loans are growing in popularity, whereas drawdowns on home equity lines of credit trended lower. Residential mortgage activity was stable. The shift in applications from refinancing to new purchase grew. Delinquency rates declined across consumer and commercial loan categories. No substantive changes were made to loan-application standards. Aggregate core deposits grew at a steady pace, with a movement from CDs to demand deposits still taking place. Customer preferences for online banking, rising use of ATMs, and shrinking net interest margins were factors cited by some of our contacts for cutting payrolls and reducing the number of branches.

Energy. Coal production continued to trend down across the District, although lower production numbers are showing signs of stabilizing. One producer noted that demand from domestic utility companies is up slightly, while offshore demand is slowing or stagnant. Spot prices for steam-coal rose slightly, whereas metallurgical coal prices were flat. The number of drilling rigs across the District was little changed over the past six weeks but has fallen since the beginning of the year. Ohio and West Virginia issued shale gas drilling permits at a robust pace. Output from conventional and unconventional oil and natural gas wells was flat during the past couple of months. In the wet gas regions of Ohio and West Virginia, output should begin to increase later in the year as newly constructed gas processing units come on line. Well-head prices for natural gas are trending higher, but not to the point that would encourage aggressive drilling. Capital expenditures were at targeted levels, with little change expected. No change in production equipment and material prices was reported. Energy payrolls held steady. Labor costs were stable except for increases in health insurance premiums.

Freight Transportation. Our contacts described shipping volume as robust and higher than expected. Demand was particularly strong from motor vehicle and energy-related customers. Freight executives are optimistic about growth prospects for the remainder of the year. Diesel-fuel prices trended lower, and costs associated with equipment and maintenance items were stable. The biggest concern facing trucking companies at this time is the potential impact on operations (number of trucks and drivers, productivity, and pricing) due to the new hours of service (HOS) rules that go into effect on July 1. Capital spending is on plan for the fiscal year. Two of our contacts reported that they will be investing heavily in equipment that will service their energy customers. Another commented that his firm will order more trucks than originally budgeted to add capacity. Hiring is for replacement and capacity expansion. The industry is still experiencing a shortage of drivers and skilled mechanics. The former may worsen under the new HOS regulations.

FIFTH DISTRICT–RICHMOND

Overview. Economic activity strengthened modestly across the District, however growth was constrained by softness in manufacturing, federal spending limits, and unusual weather conditions. Retail sales flattened, although auto sales generally remained strong. Business was also strong at most non-retail services firms, but tourism in some areas fell below expectations as a result of an unseasonably cool spring. Banking conditions were mixed; residential mortgage demand increased, commercial lending varied, and competition for business was sharp. Residential real estate prices strengthened. Commercial real estate construction also improved, with positive reports across the District. Heavy rainfall and fluctuating temperatures delayed spring plantings, but forage crops were developing well. In the energy sector, demand continued to shift from coal to natural gas. Labor markets were uneven, although many employers plan to increase hiring in the months ahead. Reports on prices and wages were mixed.

Manufacturing. Fifth District manufacturing activity softened since our last report, although there were scattered reports of improvement. A machinery producer said that his company was struggling to hit the break even mark again this month and that the volume of new orders was down considerably. Impacts of sequestration and tax changes were noted by several firms. A manufacturer of automobile convertible tops reported that the uncertainty of tax issues had slowed investment at his firm. Moreover, a producer of defense equipment cited government sequestration and orders being canceled or delayed as major concerns facing his company. In contrast, a lumber producer mentioned that, because of the improvement in the housing market, his company had earned a profit in the first four months of this year, and a flooring manufacturer also reported improving business. Price growth in raw materials slowed in recent weeks and finished goods prices grew at a somewhat quicker pace.

Ports. Shipments increased at District ports, especially for container exports. Specialty chemicals were particularly strong, and one contact noted that pharmaceutical manufacturers were changing from air to ocean transport as rising fuel costs drive up air freight rates. Both auto exports and imports were robust. Furniture and flooring imports were up overall, and imports of auto parts remained solid. Port administrators commented that more manufacturers were evaluating plans for moving product through the ports as they plan to shift production to this country. Some port officials are considering how to better accommodate large container ships coming to the East Coast via the Suez Canal. Those ships have nearly double the container capacity of ships that could pass through the Panama Canal. However, one port contact expressed concern that the current truck driver shortage could slow container shipping.

Retail. Retail sales varied by category but were flat overall since our last report. Several contacts told us the unusually cool spring weather held down sales. Retailers commented that their labor costs were rising as a result of the healthcare legislation, leading them to change employees' hours. The manager at a discount chain store in the Tidewater region of Virginia noted that her store was "struggling" to make sales goals. In contrast, a central Virginia retail contact observed "less of a roller coaster" in retail sales than a year ago, noting stability and even strength in categories related to home building and home sales, such as furnishings and decorative accessories. Auto dealers reported that availability of used cars improved since our last report. Auto sales remained generally strong for both domestic and imports. Surveyed contacts indicated that retail price increases slowed in recent weeks.

Services. We received reports of renewed vigor at non-retail services firms. Architectural and technology services were among the firms noting increased revenues. A financial services contact commented that his clients were "feeling good" as asset values rose and real estate improved, leading them to free up and move cash. Although healthcare organizations reported stable demand, executives in some areas remarked on financial pressure from the decline in their Medicare and Medicaid reimbursement under the Affordable Care Act. Prices at non-retail services firms edged up slightly faster.

Reports from the tourism industry were mixed. Resorts in Virginia and North Carolina had good growth in bookings, and business was up for full-service conference space. However, unseasonably cool weather reduced weekend stays at a West Virginia resort and lessened weekend traffic on the Outer Banks of North Carolina. A contact in Washington, D.C. said visitor traffic remained consistent, but that some summer activities could be affected by reductions in security staffing under the federal budget cuts. Hoteliers anticipated a solid finish to the summer months, and most had raised rates slightly.

Finance. Reports on banking conditions varied since our last assessment. Demand increased for residential mortgages. Refinancing was strong in North Carolina, whereas lending in Virginia went primarily to new home purchases. Across the District, the limited increase in commercial mortgage activity was generally confined to refinancing existing loans from other institutions. Nevertheless, a bank official in North Carolina noted a pick up in demand from home builders, and said that his bank was reconsidering whether their credit standards were too tight given the improving economy. The demand for commercial and industrial loans was weak, according to lenders in South Carolina and West Virginia, due to customers' high cash balances and low confidence. However, bankers in North Carolina and Virginia saw an uptick in activity. Several lenders commented that competitors continued to offer very low rates that "made no sense" in an attempt to take away business.

Real Estate. Residential real estate activity strengthened in recent weeks. A contact in Hampton Roads, Virginia reported that contracts were up twenty-two percent over a year ago and that inventories were low. She added that buyers were looking for owner-occupied homes in good condition and noted that multiple offers were driving up prices. Similarly, a Realtor in the Washington, D.C. area described the market as "accelerating," noting that decreasing inventory had led to multiple offers and higher selling prices. A Richmond Realtor mentioned that new construction demand had increased, which had pushed up the prices of building lots. A homebuilder in South Carolina reported an increase in lot shortages. His company raised prices on single family homes this year to offset supplier price increases.

Commercial real estate and construction markets tightened slightly in recent weeks. A commercial Realtor in Charleston, South Carolina said that activity had improved and that he expects nonresidential construction to increase significantly in the next twelve to eighteen months. He also stated that the region is on the precipice of strong growth but will be limited by infrastructure. A source in Richmond expected further improvement in commercial real estate activity during the next year, noting a rise in construction in the Richmond and Hampton Roads regions. According to a contact in West Virginia, more hotels have come online and retail space was absorbed at a faster pace. Leasing there has risen to pre-recession levels, according to one report. With vacancies declining and increased demand for space in many areas, commercial lessors have stopped granting concessions. There is strong demand in the Baltimore corridor for multi-family rentals and purchases, with occupancy rates at 95 percent. Another source said that the Washington, D.C. market was growing with a concentration in rentals, but that there was little speculative building.

Agriculture and Natural Resources. Fluctuating temperatures coupled with heavy rainfall tempered plant growth and delayed spring plantings throughout the District. Despite wet conditions, forage crops were having a great spring, and pastures and hayfields were in good condition.

Assessments of energy activity were mixed in this reporting period. The coal industry remained depressed and businesses that supplied the industry were negatively impacted. A source in West Virginia said that reduced coal production led to a decline in diesel fuel sales as more heavy equipment was idled. He indicated that natural gas had displaced coal in power plants due to the low price of natural gas and concerns regarding environmental regulatory changes. He noted that some of the decline in domestic coal demand was offset by increased thermal coal exports to Europe.

Labor Markets. Labor activity was uneven, although contacts were upbeat about additional hiring in the months ahead. A manufacturer in North Carolina laid off employees because of fewer federal orders. However, an auto dealer in the Washington, D.C. area noted that he had to hire more sales people, and a flooring manufacturer said he added an additional large crew at one of his plants. A national trucking firm executive remarked that implementation of new federal restrictions on driver hours of service will exacerbate the shortage of drivers for long-haul trucking. Further, a temp agency in Maryland saw somewhat stronger demand for workers in most industries. Contacts in the tourism industry indicated that seasonal hiring was about on par with a year ago, and permanent jobs were plentiful in locations along the outer banks of North Carolina. Looking ahead, firms in several categories expected to increase hiring. For example, a lumber firm expected to hire more workers later this year, and a West Virginia manufacturer planned to add jobs early next year as a result of reshoring. According to our latest surveys, manufacturing employment edged down and average wage growth slowed. Retail employment declined, but wage increases were more prevalent. Hiring flattened at non-retail services providers, while average wages rose.

SIXTH DISTRICT – ATLANTA

Summary. On balance, Sixth District business conditions improved modestly in April and May. The outlook for most sectors remained positive as contacts anticipate further improvement in activity for the remainder of the year.

Most retailers noted an increase in sales activity since our previous report. The hospitality sector continued to be a bright spot for the District as occupancy and room rates and revenues remained solid. District real estate activity continued to strengthen from positive but uneven sales growth, rising home prices, and declining home inventories. Commercial real estate contacts have seen improvements in construction since the beginning of the year. Manufacturers cited growth in new orders and production. Bankers asserted that the demand for new loans remained weak. Hiring activity was positive, but muted. Prices continued to remain stable and most firms indicated having little pricing power.

Consumer Spending and Tourism. District retail contacts noted an improvement in consumer spending but were cautiously optimistic regarding their outlook. Reports indicated that consumers remained focused on deals and discounts but high-end luxury stores continued to perform well. Relatively stable gasoline prices along with improvements in the housing market were cited as contributing positively to consumer behavior. Automobile sales remained steady at high levels.

Hospitality contacts reported that the sequestration has not significantly deterred travel bookings. Leisure and international travel continued to experience healthy demand, with several contacts reporting that activity exceeded expectations. Hotel occupancy, average daily rates, and revenue per room showed strong increases across the District from the same period last year. Contacts also noted uncertainty regarding the impact of gasoline prices on summer travel but their outlook remained positive, with expectations that activity would be robust through the end of the year.

Real Estate and Construction. Similar to our last report, District brokers reported that existing home sales remained ahead of last year's level. Sales growth still remained the strongest among Florida contacts. Brokers continued to report that low home inventories were restraining sales. Homes were also noted as appraising below market price which was either slowing sales or in some cases halting sales altogether. Existing home prices continued to rise on a year-over-year basis and brokers indicated that price growth was a bit stronger than in our last report. The outlook for sales growth remained positive, with the majority of brokers anticipating sales gains over the next several months.

District homebuilders reported that new home sales and construction activity were stronger than in our last report and from a year ago. Buyer traffic continued to increase, as well. However, despite improved sales, access to financing and a shortage of developed lots continued to constrain construction activity. Most contacts reported that new home inventories were below the year earlier level and prices have risen slightly. Once again, the outlook for construction activity and new home sales remained positive with most anticipating levels to be slightly ahead on a year-over-year basis.

District commercial real estate contacts indicated that demand continued to improve from earlier in the year. Construction activity rose modestly again. Activity remained dominated by build-to-suit projects. Commercial brokers reported that demand for space, particularly office and industrial, increased from earlier in the year while retail continued to lag. Brokers cautioned that most markets still favor tenants but that concessions had eased somewhat and increases in rental rates were noted in select submarkets. Apartment development continued to grow at a strong pace across the region and absorption remained positive. The outlook among District commercial real estate contacts continued to be positive and further improvements were expected this year.

Manufacturing and Transportation. District manufacturers continued to report expanding activity in April and May. Growth was driven by increases in new orders, production, and employment. Much of this expansion was attributed to the region's large auto and energy manufacturing presence. Nearly half of the region's purchasing managers expect production to be higher in the near term.

District railway contacts reported increased intermodal traffic; however, total volume was flat to slightly down compared with a year ago. Movement of petroleum products was up significantly on a year-over-year basis, as were volumes of primary forest products, lumber and wood products, and metallurgical coal. Volumes of grain products, metallic ores, military machinery, and transportation equipment decreased notably. Orders for heavy duty trucks increased considerably from a year ago; however, this pickup in demand reflected equipment replacement rather than additions to overall trucking capacity. District ports reported solid growth in containerized traffic and general cargo, especially imported steel, export chemicals, and petrochemical products.

Banking and Finance. Overall demand for new loans remained weak as banks faced significant pressure to improve net interest margins and increased competition from non-bank providers of capital, such as private equity groups. Bankers noted that businesses were taking on debt where necessary to maintain and refurbish equipment to meet current demand rather than making capital investment aimed at future growth.

Employment and Prices. District payrolls grew at a mild pace since our last report. The bulk of jobs added were concentrated in Florida and Georgia. Hiring in professional and business services was especially strong in these states; in addition, employment in retail and real estate was notably strong in Florida. Hiring in leisure and hospitality services, particularly accommodation and food services, increased in Alabama, Georgia, Louisiana, and Tennessee. Government employment decreased in every District state except for Georgia, where gains were meager.

Most firms continued to experience fairly stable input costs. The Atlanta Fed's Business Inflation Expectations survey showed input cost expectations hovering around 2 percent in April and May, roughly unchanged since the beginning of the year. Though most firms continued to report having little pricing power, retailers indicated that profit margins continued to improve since the beginning of the year as they have been able to successfully contain costs.

Natural Resources and Agriculture. Low natural gas prices continued to provide cost savings for industrial contacts in the region. Refiners along the Gulf of Mexico completed the seasonal process of switching from winter to summer gasoline blends and were ramping up production to meet higher demand from the summer driving season. Although the total number of rigs operating in the Gulf was roughly constant over the reporting period, drilling activity continued to shift from gas to oil, in part as a response to the ongoing price disparity between the two natural resources. In line with historical seasonal patterns, inventories of crude oil in the region rose considerably, supported by rising national oil production and soft demand.

Additional rains continued to improve drought conditions in Georgia and Florida. However, prolonged rainy periods and cool temperatures delayed planting of some crops. Since our last report, monthly prices paid to farmers for beef, broilers, corn for grain, and soybeans decreased while cotton prices increased slightly. Contacts continued to voice concern about citrus greening and its effect on Florida citrus crops while cotton producers reported China's large cotton stocks were becoming a growing risk factor for domestic cotton production. Agricultural producers also reported that they are turning more and more to technology and other capital investments to improve production and reduce the need for labor.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District again expanded at a modest pace in April and May. While most contacts remained optimistic about growth prospects in the second half of the year, many also expressed a greater sense of caution due to elevated uncertainty over the economic outlook. Growth in consumer spending increased slightly, while growth in business spending slowed. The decline in manufacturing production growth flattened out. In contrast, construction picked up, led by continued improvement in the residential sector. Credit conditions eased somewhat. Cost pressures were steady, and wage pressures remained moderate. Corn, soybean, milk, and hog prices increased, while cattle prices were stable.

Consumer spending. Growth in consumer spending increased slightly in April and May. The delayed arrival of warmer weather spurred sales of spring and summer items such as clothing, building materials, and lawn and garden items. In contrast, furniture and restaurant sales slowed. Promotional activity was heavy during the reporting period. Even absent from sales, contacts noted a more general tendency for customers to move to lower-priced items within shopping categories, especially in food and clothing. Several retail contacts also pointed to the expiration of the payroll tax credit and less spending out of tax refund checks as having a negative effect on their sales. Auto sales were moderately higher. New vehicle sales fell short relative to expectations, but used vehicle sales increased at a faster pace. Small, fuel efficient, crossover vehicles were the strongest sellers, while pick-up truck sales were a little soft.

Business spending. Growth in business spending slowed in April and May. Inventory investment decreased. Retail contacts reported that inventories were at comfortable levels, and, because of low sales expectations, they did not anticipate any substantial stockbuilding over the remainder of the year. Manufacturers also noted closely monitoring inventories given recently weaker demand. Capital expenditures were limited. A number of contacts reported that elevated uncertainty was curtailing their capital spending, pointing to doubts about the durability of the recovery as well as concerns over national fiscal policy. Labor market conditions continued to improve slowly. Uncertainty over health care costs and the pending implementation of the Affordable Care Act caused some firms to delay hiring plans or increase usage of temporary workers. Demand for skilled workers, however, remained strong, with a recruiting firm noting an increase in client orders for healthcare, information technology, and engineering occupations.

Contacts indicated that even in the mining industry, where activity has weakened substantially, firms continue to hire engineers at a rapid pace.

Construction/real estate. Growth in construction and real estate activity picked up in April and May. Demand for residential construction grew steadily, as multifamily construction remained strong and conditions for single-family construction continued to improve. Activity in the residential real estate market increased, with home sales, prices, and residential rents rising. Contacts noted that the still large number of underwater mortgages, extended foreclosure processes, and low level of new construction meant that the inventory of existing homes on the market was tight and that this was restraining sales. Nonresidential construction increased at a modest pace. Contacts noted, however, increased activity in the manufacturing sector, particularly from the auto industry. Commercial real estate conditions continued to improve, although vacancy rates remained elevated. Contacts also reported an increase in demand for leasing was pushing up commercial rents, with demand from the healthcare sector noted as being particularly strong.

Manufacturing. The decline in manufacturing production growth flattened out in April and May. Although the auto industry remained a source of strength, it too grew at a more moderate pace. An increase in imports of steel displaced domestic production; nonetheless, a steel industry contact reported that capacity utilization gradually increased over the reporting period. Specialty metal manufacturers reported small increases in new orders, noting that their customers had become more cautious, ordering only as necessary with very short lead times and reassessing supply chains in an effort to cut costs. Exports of heavy machinery were lower, due to weaker demand in Europe and Asia. Contacts in the heavy equipment industry reported that equipment dealers continue to reduce their inventories and that most mining companies have trimmed their orders due to cutbacks in mining investment. In contrast, demand for heavy trucks increased. Suppliers to the aerospace industry noted a pick-up in orders following resolution of the issues affecting the Boeing 787. Improvement in the housing sector also continued to benefit manufacturers of household products such as appliances and fixtures.

Banking/finance. Credit conditions eased some over the reporting period. Corporate borrowing costs declined and demand increased in corporate debt markets as investors continue to reach for higher yields. Banking contacts reported modest growth in business loan demand, with greater competition for high quality assets among larger banks leading to some downward pressure on pricing. Mortgage refinance activity, while still strong, began to slow, but contacts noted a slight increase in purchase applications. Several contacts also reported that the new rules regarding eligibility for GSE backed mortgages are likely to limit the number of people who qualify. With demand deposits growing and comfortable liquidity levels, banks are increasing their willingness to lend. Smaller banks, however, continue to lag behind larger ones, with many noting greater regulatory uncertainty in their traditional areas of lending as a key reason why. Contacts also noted that risk profiles remain slow to change, indicating that a lack of secondary loan market demand and low appraisals of commercial real estate values continue to constrain lending.

Prices/costs. Cost pressures were steady in April and May. Commodity prices were generally somewhat lower, although some contacts noted increases in the prices paid for natural gas, lumber, drywall, copper, steel, and aluminum. Retailers again reported mostly modest increases in wholesale prices, with the exception of continued cost pressures for some food items originating from last year’s drought. Overall, pass-through to downstream prices remained limited. Wage pressures were again moderate, although many contacts noted rising healthcare costs and uncertainty about future employee healthcare obligations associated with the Affordable Care Act.

Agriculture. Heavy precipitation in the District aided the recovery from last year’s drought by replenishing subsoil moisture. The rain also dramatically slowed planting of corn; farmers almost caught up, often by working around the clock once fields had dried sufficiently. However, the emergence of corn plants significantly lagged that of a typical year. Soybean planting progressed at about its normal pace once the corn crop was in the ground. Flooding from the heavy rains also resulted in river closures, delaying deliveries of agricultural products and farm inputs, particularly fertilizer. Current corn and soybean prices rose, as stocks remained low. Late planting pushed back the availability of new supplies into September. However, price declines were anticipated for the new crop in the fall, as concerns over major yield losses abated. Milk and hog prices moved higher; cattle prices were flat.

Eighth District – St. Louis

Summary

Economic activity in the Eighth District has expanded at a moderate pace since the previous report. Recent reports of planned activity in manufacturing and services have been positive, on net. Reports of retail and auto sales over the past three months have also been positive. Residential real estate market conditions have continued to improve, and commercial real estate markets have also improved. Lending activity at a sample of large District banks was little changed during the first quarter of 2013. Prices, wages, and employment levels over the past three months have stayed the same or increased for a majority of contacts across the District.

Consumer Spending

Contacts reported that retail sales in the past three months were up, on average, relative to the same period last year. Forty percent of contacts noted moderate increases in sales, while 40 percent noted minor decreases and the rest saw no changes. Forty percent of retailers reported that sales levels met their expectations, and the rest reported that sales fell short of expectations. About sixty percent of retailers noted that their inventories were at desired levels, while the rest reported that their inventory levels were too high. The sales outlook over the next three months was slightly positive: 40 percent of retailers expect sales to increase over 2012 levels, and the remaining contacts expect sales to stay the same. The general outlook for the retail industry over the next three months was largely positive. Contacts noted increases in new store openings, but some expressed concern about the effects of the online sales tax bill on their sales.

Reports from auto dealers about sales in the past three months were generally positive. Fifty-seven percent of the car dealers surveyed saw increases in sales, while 29 percent saw decreases and the rest saw no changes. Fifty percent of car dealers reported an increase in used car sales relative to new car sales, and 17 percent reported the opposite. About 36 percent of respondents reported that their inventories were too high, while 14 percent reported that their inventories were too low. The sales outlook for the next three months was optimistic: 64 percent of car dealers expect sales to increase over 2012 levels, while 21 percent expect sales to decrease.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our last report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the District, while a smaller number of contacts reported plans to reduce employment. Firms in automobile, automobile parts, appliance, asphalt products, plastics packaging, chemical, steel, and furniture manufacturing plan to hire new workers and expand operations. In contrast, firms in medical devices, commercial printing, and beverage manufacturing reported plans to lay off workers. A recent survey of manufacturers showed increased new orders and capacity utilization for the majority of firms.

Reports of planned activity in the District's service sector have also been positive since the previous report. Firms in information technology, financial, distribution, business support, healthcare, engineering, and hospitality services reported new hiring and expansion plans. In contrast, firms in retail and wireless communication services reported plans to reduce employment.

Real Estate and Construction

Home sales have continued to increase throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2012, April 2013 year-to-date home sales were up 16 percent in Louisville, 32 percent in Little Rock, 7 percent in Memphis, and 13 percent in St. Louis. April 2013 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2012. Permits increased 20 percent in Louisville, 4 percent in Little Rock, 27 percent in Memphis and 20 percent in St. Louis.

Commercial and industrial real estate market conditions have continued to improve moderately. Compared with the fourth quarter of 2012, the first quarter 2013 industrial vacancy rates declined in St. Louis and Memphis and increased in Little Rock and Louisville. During the same period, downtown office vacancy rates increased in Louisville, Little Rock, Memphis, and St. Louis, while suburban office vacancy rates declined in St. Louis and Little Rock and increased in Memphis. Contacts in central Arkansas noted large ongoing retail construction projects. Contacts in Louisville and Memphis reported build-to-suit construction plans for industrial space.

Banking and Finance

A survey of senior loan officers at a sample of large District banks found little change in overall lending activity during the first quarter of 2013. During this period, credit standards for commercial and industrial loans ranged from unchanged to eased somewhat, and the demand for such loans ranged from moderately stronger to moderately weaker. Credit standards for commercial real estate loans ranged from basically unchanged to eased somewhat, while demand ranged from mostly unchanged to moderately stronger. Credit standards for prime residential mortgage loans remained unchanged and demand ranged from unchanged to moderately stronger. Meanwhile, credit standards and demand for consumer loans remained mostly unchanged. Demand for auto loans ranged from moderately stronger to moderately weaker, while demand for other consumer loans was unchanged.

Agriculture and Natural Resources

Because of persistent rains, District farmers are behind their average planting schedules. Planting progress for cotton, rice, and soybeans in Mississippi was approximately half the 5-year average. Across all other District states, soybean planting progress was approximately 15 percent slower than its 5-year average. As of mid-May, well over 90 percent of the District's winter wheat crop was rated in fair or better condition and close to 70 percent was rated as good or excellent. Year-to-date coal production across the District states (excluding eastern Kentucky) for April was 3.3 percent lower compared with the same period in 2012, while coal output for April 2013 was similar to April 2012.

Prices, Wages, and Employment

Fifty-five percent of contacts indicated that prices charged to consumers over the past three months have stayed the same, while 34 percent indicated that prices have increased relative to the same period last year. In turn, 30 percent of contacts noted that wages over the past three months have stayed the same, while 66 percent noted that wages have increased. Meanwhile, 45 percent of contacts reported that employment levels have remained the same over the past three months, while 37 percent reported that employment levels have increased, compared with the same period last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy posted moderate growth. Increased activity was noted in consumer spending, tourism, commercial construction and real estate, professional services and manufacturing. Residential construction and real estate grew at a fast pace, the energy and agriculture sectors were steady and mining decreased. Labor markets tightened since the last report, particularly in the western part of the district. Wage increases were generally modest, and overall prices were stable, with some exceptions noted.

Consumer Spending and Tourism

Consumer spending grew slightly due in part to a late spring. A Minneapolis area mall reported that recent traffic was level with a year ago, but sales for most tenants were up. A mall manager in Montana noted that apparel sales were slow, but jewelry sales were much higher than a year ago. A Minnesota-based retailer reported that the extended winter weather slowed spring sales of apparel and other items. A Minnesota auto dealer reported level sales over the past couple of months. A representative of an auto dealers association in Montana noted moderate growth in recent auto sales compared with a year earlier at dealerships in the state.

Winter tourism finished very strong in northern Wisconsin and Minnesota as snowpack remained into May in some areas. A tourism official in northwestern Wisconsin noted that summer bookings at resorts were strong. Recent hotel occupancy in Billings, Mont., was down somewhat from 2012, but still at high levels compared with the prior few years.

Construction and Real Estate

Despite the inclement weather, commercial construction activity continued to increase since the last report. The value of April commercial permits in Billings increased 11 percent from last year, while hotel building rose to $11 million in April compared with zero in the first four months of 2012. In Sioux Falls, S.D., April permits were up 2 percent from a year ago. A Minnesota manufacturer plans to build an office building. However, in the Minneapolis-St. Paul area, April nonresidential construction activity decreased from a year ago, according to a market research firm. Residential construction increased rapidly over past year. The value of April residential permits in Sioux Falls more than quadrupled from a year earlier. In the Minneapolis-St. Paul area, April residential permitted units more than doubled compared with April 2012. The value of April residential building permits in Billings was up 77 percent from last year, mostly due to multifamily building.

Activity in commercial real estate markets increased since the last report. A real estate analytics firm noted that Minneapolis-St. Paul area industrial vacancy rates dropped in the first quarter and are forecast to fall throughout 2013. Residential real estate market activity increased at a solid pace. In the Sioux Falls area, April home sales were up 28 percent, inventory was down 19 percent and the median sale price increased 6 percent relative to a year earlier. Recent home sales were up 16 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 28 percent, and median sale prices rose 12 percent. Multifamily vacancy rates in Minneapolis-St. Paul dropped in the first quarter, but are forecast to rise for the remainder of 2013.

Services

Activity at professional business services firms increased at a moderate pace since the last report. Preliminary results of the Minneapolis Fed’s annual survey of professional services companies (conducted in May) showed that over the past four quarters, sales revenue, space usage, productivity and profits grew, and these are expected to increase over the next year. Contacts from the trucking industry expect minimal growth in freight volumes during the second half of the year.

Manufacturing

Manufacturing activity continued to expand moderately. An April survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity increased in Minnesota and the Dakotas at a slightly faster pace than in recent months. A Minnesota tractor manufacturer announced a $43 million expansion plan, while a vehicle producer is investing $20 million to expand research and development at a North Dakota facility. Plans were announced for a $1 billion fertilizer plant in North Dakota.

Energy and Mining

The energy sector remained strong, while mining activity slowed. Late-May oil and gas exploration activity increased in North Dakota and was flat in Montana compared with the last report. In North Dakota, a $400 million oil refinery will break ground this spring and a 120-car rail terminal is in the works to handle crude oil. Exports of coal from Montana’s Powder River basin hit record levels even as domestic demand dwindled. Meanwhile, production at Minnesota iron ore mines through April was about 5 percent lower than for the same period in 2012.

Agriculture

While a late spring delayed planting, recent rains brought drought relief for District agricultural producers. According to the Minneapolis Fed's first-quarter (April) survey of agricultural credit conditions, nearly 90 percent of respondents said farm incomes increased or held steady over the previous three months, with similar results for farm household and farm capital spending. Expectations for the second quarter were more moderate. District corn, soybean and spring wheat planting progress was behind average for late May, but producers were catching up quickly after a delayed spring. Prices increased from a year earlier for corn, wheat, soybeans, hay, eggs, chicken and dairy products; prices fell for hogs, turkey and dry beans, while cattle prices were flat. USDA forecasts call for substantially lower prices for corn and soybeans for the coming year, with slight reductions in wheat prices.

Employment, Wages and Prices

Labor markets tightened since the last report, particularly in the western part of the District. Labor markets remained very tight in and near the oil boom area in western North Dakota and eastern Montana, although some easing in the pace of growth was noted over the past six months. Contacts in manufacturing and agribusiness in eastern South Dakota expect to increase employment slightly over the next six months. Results from the aforementioned professional services survey show that respondents saw employment growth over the past 12 months and expect more growth in the next year.

Meanwhile, employment levels declined in Minnesota during March and April, partially due to extended winter weather. A Minnesota employment services firm noted that temporary placements in light industrial companies were level during the second quarter after posting strong gains since early 2012. A paper mill in northern Minnesota recently announced 300 layoffs.

Wage increases were generally modest. The professional services survey indicated that respondents on average expect wages and benefits to increase 2 percent over the next 12 months.

Overall prices remained stable, with some exceptions noted. Lumber prices decreased since the last report after making strong gains since October 2012. Gold and silver prices also decreased since the last report. Average Minnesota gasoline prices spiked to $4.34 per gallon toward the end of May, about 85 cents per gallon higher than a month earlier, as major refineries that supply the Midwest closed for maintenance.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy grew at a modest pace in late April and early May, while expectations for activity over the summer months strengthened further. Retail sales and tourism activity increased since the last survey, but automobile and restaurant sales declined. District manufacturers reported modest growth with an increase in production, shipments and new orders in May. Robust growth continued in the residential real estate sector, while commercial real estate activity improved modestly. Slightly higher loan demand and improving loan quality led to improvements in the District banking sector. Falling crop prices and rising production costs limited farm income growth, while the brisk pace of farmland price appreciation moderated slightly. District drilling and mining activity held steady, though energy contacts expected oil and natural gas drilling to accelerate over the next few months. District contacts from most sectors reported moderate price increases, particularly for food, building supplies and raw materials. Wage pressures and labor shortages picked up slightly, but were limited to skilled positions.

Consumer Spending. Consumer spending rose slightly in late April and early May, with an increase in retail and tourism spending and a decline in automobile and restaurant sales. Contacts in all sectors expected consumer spending to improve substantially over the next three months. District retail sales grew at a slightly faster pace over the survey period, with appliance and seasonal bridal purchases particularly strong. Tourism activity also rose, and hotel occupancy rates moved sharply higher due to an increase in tourists and business travelers. Average daily room rates moved higher and were expected to rise slightly in the months ahead. Restaurant sales declined slightly since the last survey but were expected to improve over the next few months. Automobile dealers reported fewer sales, increased inventories and fewer incentives offered. However, the majority of dealers still expected faster sales growth in the coming months due to pent-up demand, low interest rates and increased consumer confidence.

Manufacturing and Other Business Activity. After contracting for seven months, District manufacturing activity increased modestly in May. Contacts reported a rise in production, shipments and new orders, though hiring activity and average employee work weeks continued to decrease. Manufacturing expectations were strong for the coming six months, led by optimism for increased shipments, new orders, production, and capital spending. High-tech service firms reported that sales activity and capital spending increased modestly in late April and early May, and were expected to grow over the next three months. Transportation activity slowed with some contacts reporting weather disruptions affecting the industry. Many transportation contacts reported that they planned to adjust cost structures and hiring practices to offset anticipated health care and fuel cost increases.

Real Estate and Construction. Residential real estate activity remained strong, and commercial real estate improved modestly in late April and early May. Residential real estate sales continued to rise sharply. Prices trended upward and inventories are lower compared to the prior survey period. District contacts reported that low inventories have slowed sales and put upward pressure on prices in some areas. They also reported concerns that appraisals were not keeping pace with price increases. Contacts expected residential sales and prices to increase further, supported by low interest rates and a rise in consumer confidence. As a result of improved sales activity and higher traffic of potential buyers, many agencies hired additional real estate agents over the past month or expected to hire in coming months. Residential builders reported steady construction activity with expectations of moderate growth over the next three months. Commercial real estate activity rose modestly during the past month. Construction activity strengthened and prices and sales inched up, while vacancy rates fell slightly. Contacts expected stronger activity in coming months, noting that several future projects are currently in planning stages. Optimism differed across District states, with commercial real estate construction in Oklahoma expected to be particularly strong, and construction in New Mexico and Missouri fairly soft.

Banking. In the recent survey period, bankers generally reported slightly stronger loan demand, improving loan quality, and steady deposit levels. Respondents, on average, reported stable demand for residential real estate loans, commercial real estate loans, and consumer installment loans, while demand for commercial and industrial loans increased modestly. All bankers reported steady or improved loan quality compared to a year ago, and they expected the outlook for loan quality to either improve or remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories, and respondents reported average deposit levels remained stable. Bankers reported that the main factors driving positive expectations for future activity were continued economic improvements and increased consumer confidence.

Agriculture. Farm income growth softened since the last survey period, and farmland value gains moderated slightly. Farm income growth was limited by falling crop and livestock prices and by high production costs, particularly for fertilizer, seed and livestock feed and forage. Crop prices fell in early April with an announcement that grain supplies were higher than earlier estimates, although some District contacts expressed concerns about crop progress. Winter wheat crop conditions deteriorated further with much of the crop in relatively poor condition. The corn and soybean crops were behind schedule as unseasonably cold weather and late snows delayed spring planting in many areas. Demand for new farm loans remained weak, and contacts reported fewer requests for farm loan renewals and extensions. Farmland values continued to rise, but at a slightly slower pace than last year.

Energy. Energy activity was stable over the survey period, while expectations for future activity improved. Overall, drilling activity held steady for both oil and natural gas in late April and early May. District contacts reported that drilling in areas rich with natural gas liquids was particularly strong over the past month, and that they expected drilling activity for both oil and natural gas to pick up further in coming months. Wyoming coal production held steady in late April and early May, though demand has weakened over the past year with a shift toward coal alternatives for power generation due to low natural gas prices and environmental regulations. Ethanol production rebounded since the previous survey period due to lower corn prices and steadily improving profit margins.

Wages and Prices. Wage pressures increased slightly but remained weak during the survey period, while prices rose for raw materials and most finished goods across industries. Labor shortages and wage pressures inched up, with strong demand for skilled workers including technicians, truck drivers, engineers and software developers. Many employers remained concerned about the impact of recent healthcare legislation on labor costs and how these costs might be passed onto consumers or impact profit margins. Retail prices increased moderately over the survey period, and retailers planned to raise prices at a similar pace over the next few months. Food costs continued to rise, and restaurant owners increasingly expected to raise menu prices in response. Similarly, raw material prices rose moderately for manufacturers. While finished goods prices remained fairly flat over the survey period, manufacturers planned to raise finished good prices over the next few months to partially offset higher input costs. Builders and construction supply firms continued to report higher prices for construction materials, particularly lumber. In some cases, construction supply costs rose faster than anticipated, which resulted in more frequent price adjustments and reduced margins. Transportation firms also noted an increase in input prices.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a stronger pace over the past six weeks than in the previous reporting period. Manufacturing activity increased overall, and many contacts were more optimistic in their outlooks. Retail sales activity improved during the reporting period, and auto sales held steady. In the nonfinancial services sector, demand for accounting services was strong, legal firms reported modest growth, and most transportation services firms noted improvement. Staffing services contacts said demand was steady. The housing sector continued to improve, with further gains in sales and construction. Office and warehouse leasing activity remained steady. Financial institutions noted modest growth in loan demand, and energy activity improved during the reporting period. Drought conditions worsened across the Eleventh District. Prices remained stable at most firms, and employment levels were steady.

Prices Most responding firms said prices were steady and they expect increases to remain modest for the remainder of the year. One exception is home prices, which have risen strongly due to pent-up demand and low inventories. While some contacts said prices for construction materials were up, others said increased competition had lowered prices. There were some reports that builders expect less price pass-through going forward. Transportation service industry contacts noted increased shipping rates earlier in the year, but expect price gains to ease with recent declines in the price of jet fuel. Automobile dealers said prices held steady. Cattle prices trended lower over the past six weeks while retail beef prices rose to a record-high due to strong demand.

Oil prices fell slightly over the reporting period. A late winter brought natural gas inventories back into the seasonally normal range and pushed prices above $4. Gasoline and diesel prices declined since the last report.

Labor Market Employment held steady at most responding firms. There were scattered reports of hiring from some transportation manufacturing and transportation services firms. Financial firms added employees to comply with regulatory stress testing and wealth management, and noted employment growth in Austin and the Eagle Ford Shale area. Several contacts reported difficulty finding qualified people to fill vacancies, particularly in staffing services, accounting, machinery manufacturing, IT and IT-related retail. A construction-related manufacturer noted truck drivers were in short supply. Wage pressures remained largely subdued, although increased compensation was reported in legal and financial services.

Manufacturing Reports on construction-related manufacturing were mixed, although firm outlooks remain mostly optimistic. Some lumber producers noted increased activity, while others said sales were less than expected. A cement producer noted strong growth in residential demand—especially in Houston—and a recent boost from commercial infrastructure construction in Dallas. Fabricated metals producers said demand remained steady for both private and public projects. Primary metals producers said demand had slowed slightly since the last reporting period, and outlooks were cautious.

Contacts in the high-tech manufacturing industry reported that orders and shipments were flat to slightly improved since the last survey. Respondents who reported a slight improvement in orders said that growth was broadly based across sectors. Inventories were reported to be lean in general and at or near desired levels. Respondents expect demand to improve slightly in the second half of this year.

Paper manufacturers said demand increased to normal levels after the decrease reported in the last report. Contacts are slightly more optimistic. Food producers said demand was about 15 percent higher than last year at this time. One contact noted the successful introduction of new products to schools and said sales in that market were up 30 percent. Inventories were at the right levels for contacts, customers and suppliers.

Transportation manufacturing contacts said orders were steady to up. Outlooks were generally positive, although aviation contacts were more uncertain than in the last report.

Petrochemical producers reported a slowdown in activity since the last report, mostly due to weakness in Europe. Still, contacts remain very optimistic in their outlooks. Refiners said operating rates and margins were up over the reporting period.

Retail Sales Retail sales volumes increased over the reporting period and are up from a year ago. According to one national retailer, Texas continued to outperform the nation. Outlooks for the upcoming quarter and the rest of the year are positive.

Automobile sales were steady over the reporting period, and demand remains above year-ago levels. Contacts are positive in their outlooks for the remainder of the year, although increasing costs were a concern.

Nonfinancial Services Staffing services contacts said demand was flat over the past six weeks. Placements were strong in mortgage-related finance and residential construction jobs. One firm noted an increase in the number of jobs but a decline in workweeks as businesses redistribute hours to minimize the impact of health care reform. Since the last Beige Book, accounting demand was strong and firms noted a moderate increase in non-tax-related work over the reporting period, with advisory work leading the way. Legal firms reported modest demand growth, particularly for intellectual property litigation, real estate, wealth planning and health care work. Outlooks were mildly optimistic, with strength expected in real estate and corporate work.

Transportation service firms said overall cargo and container volumes increased over the reporting period. Railroad contacts reported notable increases in motor vehicles, petroleum, lumber and wood and crushed stone volumes, while volumes for grain and metallic ores declined. Small parcel shipments picked up, with demand growth led by retail trade. Air cargo volumes were flat both domestically and internationally.

Reports from airline contacts were mixed. Some said demand increased during the reporting period while others noted flat travel demand due to bad weather and reduced demand from the government sector. Outlooks were fairly strong for the near term, but contacts are less optimistic about demand in the longer-term due to sluggish economic growth and fiscal uncertainties.

Construction and Real Estate The Texas housing sector continued to improve over the past six weeks. Contacts said home sales remained strong with inventories still low, despite some reports that more homes were being listed. New home construction activity picked up pace since the last report, although some contacts mentioned higher prices may slow sales growth later in the year. Apartment construction remained at high levels and investment activity for multifamily projects continued to be strong, according to respondents.

Contacts in the commercial real estate sector said leasing activity for office and industrial warehouse space continued at a steady pace. Contacts noted a pickup in building activity in the office sector.

Financial Services Financial institutions experienced modest growth in loan demand, with robust growth in residential mortgages and auto lending and weakness continuing in corporate transactions. Non-performing loans continue to improve and debtors are rapidly paying down mortgages and auto loans. Loan pricing remains very competitive. Deposits increased modestly and deposit rates remained mostly unchanged. Employment and compensation growth were flat for the most part. Mortgage lending is expected to remain robust.

Energy Energy activity improved since the last report. The Texas rig count increased, and contacts noted strong global demand. Respondents expect further improvement in the second half of the year, especially due to anticipated increases in rig activity and production from the Gulf of Mexico.

Agriculture Drought conditions continued to worsen slightly across most of the District over the reporting period, despite scattered rainfall. The Texas wheat crop suffered from dry weather and late freezes and production is expected to be significantly below average. Conditions for other crops are generally worse than at this same time last year but not quite as bad as in 2011.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of early April through late May. Price inflation was subdued for most final goods and services, and upward wage pressures were limited overall. Retail sales were a bit soft, while demand for business and consumer services was mixed. District manufacturing activity rose on net. Production and sales of agricultural items increased modestly. Residential real estate activity expanded robustly, and commercial real estate activity trended up, although somewhat unevenly across geographic areas. Contacts from financial institutions reported slight increases in overall loan demand.

Prices and Wages

Price inflation was subdued for most final goods and services. Food industry contacts noted decreased prices of grain products but increased prices of some fruit and nut items. Contacts from retail grocery and restaurant chain establishments reported that overall food price inflation appears to have leveled off at a relatively modest pace. Fees for legal services declined a bit. Several construction inputs, such as cement, logs, and lumber, edged up further. However, prices for other wood products, steel, and some metals declined.

Contacts reported that wage gains were limited overall. Labor market slack continues to put downward pressure on wages and compensation for most sectors, occupations, and regions. However, various contacts indicated some upward wage pressure for skilled construction workers, software developers, and certain technical and managerial positions in high-tech manufacturing.

Retail Trade and Services

Retail sales were fairly soft overall. Sales of various digital and technology products slowed. Among computer and electronic products, sales of personal computers remained weak relative to sales of mobile computing devices, including smart phones and tablets. Demand for some gaming and entertainment products grew slightly, as did demand for apparel. Traditional retail grocers reported flat sales, with intensifying competition from discount and online retailers. Suppliers of food and beverage products noted increased sales. Automobile sales remained at high levels, although a shortage of used vehicles has restrained the pace of activity in some parts of the District.

Demand for business and consumer services was mixed. Food service providers reported strong sales on net, with some discount chains faring particularly well. Robust activity in Hawaii supported the District's travel and tourism sector, although there is some concern that the flow of international visitors could taper off in coming months due to potential weakness in the global economy. Travel and tourist activity in Southern California has declined a bit. Demand for both health-care and legal services was flat. Compared with previous months, contacts dialed back their expectations for robust growth of various technology services such as cloud computing and data processing this year.

Manufacturing

District manufacturing activity rose on net in the reporting period of early April through late May. New orders for electronic components were up a bit, and contacts indicated that they expect demand for semiconductors to pick up over the next couple of quarters. Pharmaceutical producers reported that innovative product launches contributed to continued modest gains for some firms, although overall activity seemed to be on a slight downward trajectory. Wood product manufacturers stated that demand grew further, fueled by rebounding domestic residential construction activity. However, contacts noted potential headwinds such as limited labor availability and transportation capacity. Demand for steel products used primarily in transportation infrastructure and nonresidential construction projects continued to increase, and capacity utilization ticked up.

Agriculture and Resource-related Industries

Agricultural sales and production increased modestly. Demand for most crop and livestock products grew further. Grain production was robust, but contacts reported some variability in vegetable production. Some contacts remained concerned that limited water availability in parts of the District could pass through to lower seasonal hiring and reduced agricultural output in coming months. Reports indicated that industry demand for electricity and natural gas grew robustly, although demand from households grew more sluggishly. While natural gas inventories rose slightly, the number of natural gas drilling rigs has fallen significantly since last year, due in part to the sustained low relative price of natural gas. Demand for gasoline was up in most regions.

Real Estate and Construction

Residential real estate activity expanded robustly, and commercial real estate activity trended up at a more moderate pace overall. Home sales climbed in many regions, and tight inventories coupled with healthy demand supported continued house price appreciation. Reports indicated that the number of foreclosed properties available for sale has continued to decline significantly. Construction of multifamily residential projects increased in many areas, driven by low vacancy rates and strong demand for rental properties. Commercial real estate leasing and development activity expanded in most major metropolitan areas. However, several contacts in less-urban areas reported persistently high vacancy rates for office properties. In some regions, construction of publicly funded commercial projects has slowed due to funding constraints from state and local governments.

Financial Institutions

Financial institutions reported that loan demand improved slightly on balance. Increased demand for mortgage and automobile loans drove growth in overall loan demand. However, some contacts recognized softness in business loan demand, due to continuing caution among borrowers. Banking contacts highlighted ample liquidity and generally stiff competition among lenders for well-qualified business borrowers. However, contacts reported that credit availability for small businesses remains limited. Although in past months contacts had pointed to a buildup of privately held technology companies poised for public offerings, the actual pace remains slow for initial public offerings, new venture capital deals, and private equity financing in the District’s Internet and digital media subsectors.