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Summary of Commentary on ___________________________

Current Economic Conditions

By Federal Reserve District

July 2011

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

JULY 2011

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic activity continued to grow; however, the pace has moderated in many Districts. The six Districts nearest the Atlantic seaboard reported a slowdown in activity since the previous Beige Book report; activity was little changed in the Atlanta District and unchanged or slightly improved in the Richmond District. Of the other six Districts, the Minneapolis District reported political and weather-related disruptions that temporarily slowed growth, and the Dallas District slowed to a moderate pace of growth. The remaining four Districts continued to grow modestly. The previous Beige Book reported a slower growth rate for four Districts, seven Districts growing at a steady pace, and one District with faster growth.

Consumer spending increased overall, with modest growth of nonauto retail sales in a majority of Districts. Falling gasoline prices throughout most of this reporting period may have encouraged a pickup in shopping trips and some additional spending since the previous Beige Book. Price pressures from food, energy, cotton, and other supplier inputs continued to squeeze retail margins. Auto sales slowed a little since the previous Beige Book, with inventories still lean due to Japanese supply chain disruptions. The summer tourism season has started off stronger than last year in most areas unaffected by severe weather.

Activity among nonfinancial service sectors improved overall in most Districts. Of the five Districts reporting on transportation services, volumes were mostly up.

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* Prepared at the Federal Reserve Bank of Philadelphia and based on information collected on or before July 15, 2011. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Manufacturing activity expanded overall, with two Districts growing at a somewhat faster rate since the last Beige Book, many Districts reporting steady or slowing growth, and two Districts reporting little change. Among firms reporting on near-term expectations, the manufacturing outlook remained generally optimistic, but capital spending plans were somewhat more cautious.

Most residential real estate activity was little changed and remained weak, although construction and activity in the residential rental market continued to improve since the previous Beige Book. For six Districts, activity in the nonresidential real estate market has improved slightly for specific submarkets, although conditions generally remained weak across all twelve Districts. Since the last Beige Book, overall loan volumes have increased in three Districts, decreased in two Districts, and were relatively flat, often with mixed trends across the banks' portfolios, in five Districts. Credit quality was steady or improving.

Drought conditions and severe flooding adversely affected large portions of the seven Districts that reported on their agricultural sectors. Districts that reported on their energy and mining sectors continued to note strong growth for most energy-related products but some weakness in coal production.

Although most Federal Reserve Districts observed modest hiring increases, labor market conditions remained soft. Wage pressures continued to be subdued for all but a few specific occupations in some Districts. Price pressures moderated somewhat in many Districts, although some firms indicated that they were able to pass on some cost increases to their customers.

Consumer Spending and Tourism

Consumer spending increased overall in most Districts since the last Beige Book. The New York, Cleveland, Chicago, Minneapolis, and Dallas Districts indicated modest growth of nonauto retail sales, and the Philadelphia and Kansas City Districts noted relatively strong growth. Retailers in the Boston, Richmond, Atlanta, and San Francisco Districts reported mixed results across product lines, while St. Louis District retailers reported slowing sales. Stronger sales in some New York City stores were attributed to tourism, while one large mall in western New York credited Canadian shoppers as the source. A major Philadelphia District retailer suggested that increased shopping trips and a greater willingness to spend were due to lower gas prices since the last Beige Book. Inventory levels were not a strong concern. Contacts from half of the Districts noted upward pressure from supplier prices—cotton was often mentioned—and other non-labor inputs, especially food and energy. Some retailers were able to pass through some cost increases, but for many, especially restaurants, profit margins were squeezed. Restaurant contacts in the Atlanta and Kansas City Districts still managed to report strong sales.

Reports of auto sales were mixed across Districts and varied by vehicle make, with most Districts indicating that dealer inventories were lean primarily due to lingering supply disruptions for Japanese vehicles and parts. Auto dealers in the Kansas City District cited strong sales despite reduced incentives and credited, in part, continued low interest rates and tornado damage. The Chicago District noted lower sales in June as incentives decreased and showroom traffic declined, followed by improved sales in early July. The New York, Philadelphia, Richmond, Atlanta, St. Louis, Dallas, and San Francisco Districts noted varying degrees of lower sales stemming from Japanese supply constraints. Strong demand for smaller vehicles and used cars continued in several Districts. The Cleveland District described dealers' outlook as cautious due to uncertainty about gas prices, the economy, and vehicle availability.

Tourism activity strengthened in most Districts as the summer season got underway. The Richmond District reported that bookings along the Mid-Atlantic coast were comparable to the 2010 season, despite last year's increase from additional vacationers who were avoiding the Gulf Coast oil spill. The New York, Atlanta, and San Francisco Districts also reported increased tourism. Tourism was also up in parts of the Kansas and Minneapolis Districts, except for destinations adversely affected by drought, heavy rains, flooding, and Minnesota's state government shutdown.

Nonfinancial Services

Growth of nonfinancial services advanced further during this Beige Book period for the Districts overall. The Boston, St. Louis, Minneapolis, Dallas, and San Francisco Districts reported the strongest advances. The Philadelphia and Richmond Districts reported slight improvements, while activity in the New York District flattened. Respondents remained optimistic about growth over the next three to six months in the Boston, New York, Philadelphia, Minneapolis, and Dallas Districts. However, the New York District's contacts were less optimistic than they were when polled for the previous Beige Book. High-tech firms in the Kansas City District expressed an optimistic outlook and planned to increase capital spending.

Among the five Districts that reported on transportation services, freight transport shipping volumes in the Cleveland District, port activity in the Richmond District, and intermodal cargo volumes in the Dallas District expanded somewhat. The Kansas City

District also reported increased activity, while Atlanta District firms indicated that their domestic volumes of freight and parcels were slowing somewhat.

Manufacturing

Manufacturing activity expanded overall, with two Districts reporting somewhat stronger growth since the last Beige Book, many Districts reporting steady or slowing in growth, and two Districts reporting little change. Auto production in the Cleveland District rose moderately, as supply disruptions caused by events in Japan diminished. The Kansas City District also reported a rebound in manufacturing activity from a low level in the prior survey period, while activity at high-tech firms expanded further. Foreign demand for metal fabrication and overall demand for semiconductors and other technology products contributed to slightly faster growth rates in the San Francisco District. Manufacturers in the Chicago, St. Louis, and Minneapolis Districts reported continued growth at a relatively steady pace from the previous reporting period. The Chicago District cited a rebound in auto production and strong demand for heavy trucks and equipment.

Growth continued among manufacturers in the Boston and Dallas Districts as well; however, results were more mixed. Contacts in the Boston District cited stronger growth for products related to foreign demand, non-luxury consumer goods, and clients addressing deferred maintenance needs. Softer growth was reported by firms delivering consumer luxury goods, and products or services to the small business, banking, and government sectors.

Manufacturing firms in the Philadelphia, Richmond, and Atlanta Districts reported somewhat slower rates of growth overall. However, the Philadelphia District reported a lull early in the period, followed by resumption of a slow rate of growth in early July, while the Richmond District reported moderate gains, which stalled in early July. Manufacturing firms in the New York District reported a pause in growth throughout the period.

Manufacturing firms' expectations of future activity were optimistic in the Boston and Philadelphia Districts, although Boston's firms were less positive than in the previous Beige Book, and Philadelphia's firms were more positive. Firms in the Boston District indicated limited plans for capital spending, while firms in the Philadelphia, Cleveland, Chicago, and Dallas Districts maintained plans for capital spending at prior levels. Fewer firms in the Cleveland District were reporting delays to project starts for their capital spending plans.

Real Estate and Construction

Residential real estate sales in almost all Districts were little changed from the last Beige Book. Activity edged up in the Richmond, Atlanta, and Minneapolis Districts. Of the Districts reporting on home prices, most said that they were flat or declining. The Boston and Richmond Districts reported steady prices; the Philadelphia and Atlanta Districts reported that prices were steady to down slightly; and the Kansas City and New York Districts reported that prices were down. Increasing inventories of unsold homes in the Boston, New York, and Kansas City Districts have restrained building in the single-family housing sector. Residential construction activity overall was mixed, though it increased in the Minneapolis District. Since the previous Beige Book, construction and activity in the residential rental market have continued to improve in the New York, Chicago, Dallas, and San Francisco Districts.

Nonresidential real estate activity improved somewhat in the Boston, Philadelphia, Cleveland, Chicago, St. Louis, and Dallas Districts. The Chicago District reported strong demand for industrial facilities, particularly from the automotive sector. The Philadelphia District reported improvements in terms of lower vacancy rates for office space, industrial space, and apartments; the Chicago District reported generally lower vacancy rates. The New York, Richmond, Atlanta, Minneapolis, Kansas City, and San Francisco Districts all reported generally weak activity in nonresidential real estate. Construction in the Minneapolis District stalled in areas because of flooding and unavailability of state building inspectors due to the Minnesota state government shutdown. Health care and apartment construction was a bright spot for the Atlanta District. Activity was weak in the Kansas City District, but firms that supply construction materials reported increased sales and stable prices. San Francisco reported stable but high vacancy rates in many parts of the District.

Banking and Finance

Reports of loan demand were more mixed than in the previous Beige Book. The New York, Richmond, and Chicago Districts reported overall increases in loan demand but from different sources. Commercial and industrial loans accounted for the growth in the New York District, while consumer loans accounted for the growth in the Chicago District. Loan growth in the Richmond District was driven by consumer lending, real estate loans for apartments, and commercial loans for larger companies. Total loan volume decreased in the St. Louis and Kansas City Districts, reflecting decreases in real estate lending and individual loans in St. Louis and reductions in consumer installment, commercial real estate, and commercial and industrial loans in Kansas City. The

Philadelphia, Dallas, and San Francisco Districts reported relatively little overall change in loan volume, while the Cleveland and Atlanta Districts reported mixed results. Outside of banking, the San Francisco District indicated increased investment activity by venture capital firms and higher levels of IPO activity.

Credit conditions have changed little since the previous Beige Book. Banks in the New York, Cleveland, Richmond, Chicago, and Dallas Districts reported that credit quality was flat or somewhat improved. Bankers in the Richmond, Atlanta, Chicago, Dallas, and San Francisco Districts noted that competition among lenders for high-quality borrowers was squeezing banks' margins and lowering the cost of capital for those borrowers. Bank contacts in the New York, Atlanta, Chicago, Kansas City, and San Francisco Districts indicated that credit standards were mostly unchanged at tight levels, but the Cleveland District heard a few reports of easing standards for good borrowers.

Agriculture and Natural Resources

Severe drought conditions adversely affected parts of the Atlanta, Kansas City, Dallas, and San Francisco Districts, causing low crop yields, complete crop losses, wildfires, and loss of grazing land in many areas. The Kansas City, Dallas, and San Francisco Districts reported that ranchers had culled herds or placed cattle on feed lots in response to poor pasture conditions, despite higher feed lot costs that trim their margins. Meanwhile, the Chicago and Minneapolis Districts noted that flooding had caused millions of acres to go unplanted. The Atlanta District reported that rain brought relief to some stressed pastures and crops, but farm labor shortages had impaired Georgia's fruit and vegetable production. The St. Louis District reported fair or better conditions for corn, soybean, sorghum, rice, and cotton crops, plus an increase from 2010 in its winter wheat production. Kansas City reported good or better conditions for corn and soybean crops. Agricultural prices were mixed since the last report, with the Chicago and Minneapolis Districts reporting lower cattle and wheat prices, while soybean and dairy prices were up. Chicago also reported higher prices for hogs.

Activity in the energy sector remained strong. Shale exploration increased in the Atlanta and Cleveland Districts. The Cleveland District also reported little change in the production of oil, natural gas, or coal, despite rising demand for coal. The St. Louis District reported higher coal production than the prior year. The Minneapolis District reported continued strong mining activity and mixed plans for wind farms and biodiesel. The Kansas City District reported expanded drilling activity and higher ethanol production but weak coal production. The Dallas District also reported strong drilling activity, and the San Francisco District reported strong activity for metal mining, along with oil and gas extraction.

Employment, Wages, and Prices

Labor market conditions remained soft in most Federal Reserve Districts. Employment, especially among temporary hiring agencies, improved in the Richmond District in recent weeks. Modest hiring increases, often within specific sectors such as advertising in the Boston District and manufacturing in the Cleveland District, contributed to modest overall employment gains. Small gains were also noted in the St. Louis, Minneapolis, and Dallas Districts. The New York, Philadelphia, and Chicago Districts reported a slowdown in the pace of hiring activity. A staffing firm in the Chicago District reported a decline in billable hours.

Wage pressures remained subdued in most Districts and for most occupations. For the overall labor market, the Philadelphia, Cleveland, Richmond, Kansas City, Dallas, and San Francisco Districts reported limited wage pressures. Wage pressures or wage increases were characterized as modest or moderate by the Atlanta, Chicago, Minneapolis, and San Francisco Districts. Boston District contacts reported wage growth between 3 percent and 5 percent in consulting and advertising. In addition, contacts in the Kansas City District reported labor shortages and wage pressures in the retail sector and for many occupations in the high-tech, energy, and transportation sectors, while the San Francisco District reported continued wage pressures for specialized information technology workers.

Price pressures seemed to have moderated somewhat, although some firms reported being able to pass on some rising costs. Overall, input price pressures appeared to have fallen modestly. Input price increases remained elevated in the Philadelphia, Chicago, Minneapolis, and Kansas City Districts. Meanwhile, the Boston, Cleveland, Atlanta, and San Francisco Districts reported moderation in input price pressures relative to the previous Beige Book. For the most part, firms' ability to pass on price increases remained mixed. A few Districts reported some sectors being able to pass on rising prices, such as the retail sector in the Chicago District and service-sector firms in the Dallas District.

FIRST DISTRICT – BOSTON

Economic activity continues to increase in the First District, but results are somewhat more mixed than in recent reports. Retailers cite modest sales increases, manufacturers note generally good results but a few softer segments, and advertising and consulting firms mostly cite strong growth. Commercial real estate markets continue to see slow improvement, while housing markets remain in the doldrums. Selected retail and manufacturing contacts cite reduced commodity cost pressures compared to the last report, although some upward price pressures persist. Headcounts remain largely unchanged or up only slightly, except for advertising and consulting firms, which continue to hire. Outlooks are generally positive, but most contacts express concern about current and future negative effects of increased uncertainty, attributable in part to failure to resolve the U.S. debt ceiling dispute promptly and the associated unclear future course of federal expenditures and taxes.

Retail

First District retailers report mixed sales results for the early summer months, with comparable same-store sales varying from flat to mid single-digit increases from year-earlier. A few contacts mention the favorable impact of promotional activity on sales and consumers' shopping patterns. Inventory levels are mixed. Several contacts note upward price pressure on commodities including paint, copper, plastics, and cotton, and one says vendors have given notice of price increases to take effect during the coming months; however, another contact notes a lessening of cost pressures. Respondents are passing along price increases where possible. Headcount is mixed, with some firms adding people in line with new store openings and limited hiring opportunities, and a few consolidating headcount. Capital spending is primarily limited to new store or renovation opportunities and select IT projects. Outlooks range from concerned to cautiously optimistic, although the majority of respondents cite apprehension about the government's ability to handle the debt ceiling crisis.

Manufacturing and Related Services

Business conditions at contacted manufacturers generally remained good in the second quarter, but results across individual firms and business segments are more mixed than in recent reports. A firm in the aerospace industry cites strong sales as clients purchased parts to implement previously deferred maintenance. A food products manufacturer and a plastics manufacturer also report relatively strong sales volume for the first half of the year. In contrast, a business services firm sees "soft" demand from small businesses, while another says sales in its banking services business were weak because of continued pressure on banks to cut costs. Growth in government-related sales continues to be sluggish. In addition, a company whose products are heavily dependent on consumers' discretionary spending reports that customer demand in the U.S. is weak this year compared to last, although international demand remains strong. Finally, a manufacturer that supplies energy-efficiency-related products to the commercial real estate sector notes that demand declined in the second quarter relative to the first quarter despite higher energy prices in the more recent quarter; they attribute this unusual sales pattern to economic uncertainty. A number of other manufacturers also note that even though their business remains good overall, at least some segments are being restrained by their customers' uneasiness about the current federal fiscal situation and overall low consumer confidence.

Commodity prices—especially oil and steel prices—remain a concern for firms with commodity-intensive production processes. Dairy-related prices also continue to rise, and resin (oil)-related packaging costs remain high. Firms implemented price increases, especially earlier in the year, to offset these higher costs; in the current round, there is little discussion of further price increases in the near-term. Indeed, a manufacturer in the food services industry expects prices for wheat and related commodities to soften somewhat in coming months. In addition, supply shortages for bulk chemicals, which had persisted for the last two years, vanished unexpectedly in recent weeks according to a plastics manufacturer; he says it is too early to tell whether the change reflects a drop-off in worldwide demand or an increase in supply.

Hiring and investment at contacted firms continues to be limited because of uncertainty about demand and a desire to keep costs low. Manufacturers investing domestically say they are mainly spending to upgrade IT and related systems, although a couple of firms report relatively modest expenditures to slightly increase plant capacity. Employment at the vast majority of contacted firms is stagnant. Much of the ongoing hiring is to keep up with worker attrition, although a few firms are increasing their headcount slightly, with one company "finally" converting some of its temporary help to permanent employees.

Looking ahead, many of the responding firms remain cautiously optimistic about growth prospects, especially in 2012. For many companies, however, the outlook for the rest of 2011 is not as strong as it was earlier in the year, since growth in the second quarter came in somewhat lower than expected. Nearly all contacted manufacturers attribute this change in the outlook to the increase in economic uncertainty resulting from the unresolved U.S. fiscal situation.

Selected Business Services

Consulting and advertising contacts in the First District generally report strong growth during the second quarter of 2011. Most respondents cite year-over-year revenue growth in the 10 percent to 20 percent range, although one consulting firm reports flat revenue and another acknowledges a 9 percent revenue decline. Contacts note that advertising and consulting as industries are very procyclical and have thus benefitted from the recent recovery in the corporate sector.

All advertising and consulting respondents have increased employment recently and plan to continue to do so in the near future, with most planned increases close to 5 percent. Several contacts note difficulty in finding qualified employees, which some firms say is constraining their sales growth. Additionally, most contacts observe stable wage growth between 3 percent and 5 percent. Although one contact says that tough competition has forced his company to lower prices, most firms have been able to pass along the costs of their compensation growth to customers.

Contacts are generally very optimistic about their outlook for the second half of 2011 and 2012. All expect positive growth for the rest of the year and most expect double-digit growth in 2012. Despite this optimism, most contacts express concern that the current debate over the debt limit has created considerably uncertainty which is delaying business decisions by themselves and their clients. Because their business is very procyclical, they say their services may be some of the first cut if companies become pessimistic and retrench, so they fear that failure to resolve the debt ceiling issue could have huge negative ramifications for their firms and for the general economy.

Commercial Real Estate

Conditions in New England's commercial real estate market are little changed since the last report. Fundamentals continue to improve across the region, but at a very slow pace. Boston contacts perceive a modest uptick in office leasing activity in recent weeks, yet at the same time note that net absorption of office space slowed in the second quarter compared to the first. Respondents expect Boston's office leasing market to continue the slow improvement pattern of recent months, but say that weak employment reports for the U.S. as a whole constitute a downside risk. In Rhode Island, leasing activity is described as slow, but deals in progress are likely to improve the picture in coming months. Portland's commercial leasing market is said to be stable, but the outlook there looks increasingly uncertain according to one contact.

Concerning commercial investment, demand for prime Boston office properties remains robust as sales prices appear to be edging up, based on recent transactions. Boston's apartment market remains very strong and continues to raise concerns of overheating. While apartment rents increased significantly year-over-year in the metropolitan area—by 5 percent to 10 percent by one estimate—contacts judge recent property prices to be too high and warn of a possible excess of planned construction. Meanwhile, some large office construction projects in Boston are moving forward, but others in the planning stages are likely to remain stalled indefinitely.

Residential Real Estate

Throughout the region, residential real estate markets remained stagnant in May, with most New England states posting significant year-over-year declines in home and condo sales. The homebuyers' tax credit, which boosted sales in the first half of 2010, contributed significantly to the year-over-year declines observed in May, but contacts report activity in the housing market remains slow, with the buyer pool resting at weak levels. Contacts in some states, however, note increases in home sales compared with two years ago, which they interpret as a positive sign. Meanwhile, median home prices remained roughly steady in May compared to a year earlier, with states experiencing either modest increases or declines; the median price of condos also moved in mixed directions across the region. According to contacts, job insecurity and stricter lending requirements among larger banks continue to restrict the flow of buyers into the residential real estate market. At the same time, inventories continue to rise in the region, although most contacts say current inventory levels are not troubling because inventories in the region have been low, limiting the selection for potential buyers.

Contacts anticipate that sales figures in July will show year-over-year increases as the calendar moves beyond the expiration of the tax credit in June last year. Most forecast sluggish activity for the rest of 2011 and do not anticipate a significant increase in buyer activity until 2012 or later. The median sale price of homes is expected to move up or down only slightly over the coming months.

SECOND DISTRICT--NEW YORK

The pace of activity in the Second District's economy slowed somewhat since the last report. Business contacts across a variety of sectors indicate that activity has flattened out in recent weeks and that hiring has tapered off. Retail sales remained fairly sturdy in June but were mixed in early July. Consumer confidence has remained at low levels. Tourism activity has remained strong. Commercial real estate markets have been mixed since the last report, with office markets mostly stable but industrial markets weakening somewhat. The residential purchase market has been steady to somewhat softer, while the rental market has shown further signs of strengthening; there continues to be little new home construction. Finally, bankers report increased demand for commercial & industrial loans, lower delinquency rates on such loans, and no change in credit standards in any category.

Consumer Spending

Non-auto retail sales continued to run on or above plan in June, with same-store sales running 1 to 5 percent ahead of a year earlier, though reports for early July were more mixed. A number of contacts note that sales of apparel have been performing relatively well, while sales of home goods have been on the sluggish side; one contact notes that fashion apparel has been selling considerably better than more basic items. One large chain reports somewhat stronger sales in its New York City stores than elsewhere in the region; part of this is attributed to tourism. Moreover, one large retail mall in western New York State notes that a continued brisk flow of Canadian shoppers has been a major factor in driving sales. Retail inventories are generally reported to be in good shape. Prices appear to be relatively stable overall: one retail chain indicates that it has raised prices moderately on some lines, but another contact notes that there is somewhat more discounting of merchandise than at this time last year. Sharply higher cotton prices are expected to push up clothing prices moderately in the second half of the year.

Auto dealers in upstate New York report that sales were mixed in June. Rochester-area dealers note some deceleration in sales, mainly attributed to low inventories or stock-outs due to ongoing Japan-related disruptions. On the other hand, Buffalo-area dealers indicate some pickup in sales in June, after a sluggish May, as inventory problems begin to subside. Used cars are said to be selling well. Auto-industry contacts note improvement in both retail and wholesale credit conditions.

Consumer confidence surveys continue to give mixed results. Siena College reports that consumer confidence among NY State residents slipped in June, following a good gain in May, with declines occurring both upstate and downstate. In contrast, the Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, Pa) rose in June, following a steep drop in May. Still, both surveys show confidence mired at low levels. Tourism activity in New York City has remained quite strong since the last report, as reflected in persistently high hotel occupancy rates, room rates that run 6 to 8 percent ahead of a year earlier, and a pickup in Broadway theatre attendance and revenues.

Construction and Real Estate

Residential construction has remained depressed and housing markets across the District have remained sluggish since the last report, although there has been further improvement in the rental market. An authority on New Jersey’s housing industry reports that the resale market has remained weak, and that the level of optimism appears to have waned. Prices of existing homes have continued to drift down, largely reflecting a preponderance of “distressed” sales; otherwise, prices across northern New Jersey are generally flat. While the inventory of unsold new homes is fairly lean now, the inventory of available existing homes remains elevated—as high as 16 months of sales if units in foreclosure and other distressed properties are included. Buffalo-area Realtors also report some weakening in market conditions in May and June; while foot traffic has been fairly brisk, few people have made offers. More generally, sales activity across New York State has been steady to weaker. A major New York City appraisal firm reports that both sales and prices of co-ops, condos, and single-family homes remain flat overall—both in Manhattan and in the outer boroughs—with the high end of the market accounting for a larger share of sales than last year.

In contrast with the weakness in home purchase markets, rental markets have shown increasing strength. Manhattan's apartment rental market has strengthened since the last report. Rents on new leases were reported to be up 6 percent in June from a year earlier in June. In addition, one contact notes that landlords have pulled back on concessions, which are now reportedly being offered on fewer than 5 percent of new leases, down from 60 percent in mid-2010. Separately, the Jersey shore summer rental market is reported to be fairly strong this year, though the sales market for rental units remains sluggish. More broadly, many New Jersey landlords are reported to be pushing through rent increases for the first time since the recession.

Commercial real estate markets have been steady to somewhat weaker since the last report. Office vacancy rates and rents were generally stable across the District during the second quarter: market conditions improved slightly in the Buffalo and Rochester metro areas and in Manhattan, but they weakened moderately in northern New Jersey and metropolitan Albany. However, industrial real estate markets weakened modestly across most of the District, with vacancy rates edging up and rents drifting down.

Other Business Activity

Reports from business contacts point to some leveling off in the labor market. A major New York City employment agency reports that recruitment activity has been steady but lackluster since Memorial Day. Hiring in the legal industry has continued to improve from very depressed levels, with large firms hiring once again. Financial sector hiring has been spotty. Still, the flow of applicants for office jobs has declined somewhat. More broadly, contacts in both the manufacturing sector and other industries report some tapering off in hiring activity since the last report, though employment levels are still expected to increase moderately over the second half of 2011.

Looking at overall business activity, manufacturing firms in the District report a pause in growth in June and early July, based on the latest Empire State Manufacturing Survey. Manufacturers also report that price pressures have eased since the last report and that their selling prices are steady; however, both prices paid and prices received are expected to increase in the months ahead. Non-manufacturing firms also indicate that business activity has flattened out since the last report, and contacts have become somewhat less optimistic about the near term outlook. Non-manufacturing firms report that cost pressures remain widespread and more contacts than last time report that they are raising selling prices.

Financial Developments

Bankers indicate increased demand for commercial and industrial loans but little or no change in other loan categories. Bankers also reported a moderate decline in the demand for refinancing. Credit standards were reported to be virtually unchanged for all loan categories—the first time in a number of years that respondents did not report net tightening on the commercial and industrial segment. Respondents report decreases in spreads of loan rates over costs of funds for all loan categories, especially residential mortgages; they also indicate a decrease in the average deposit rate. Finally, bankers indicate lower delinquency rates on commercial and industrial loans but little or no change in delinquency rates for the other categories.

THIRD DISTRICT – PHILADELPHIA

Since the last Beige Book, Third District economic activity has continued to grow at a very slow rate. Overall, manufacturing growth has leveled off at a low rate since the last Beige Book. Retailers posted strong year-over-year sales increases in June. For motor vehicle dealers, the slowdown in sales that began in May eased slightly further in June. On balance, bank lending has been mostly flat since the last Beige Book. Steady and falling house prices continue to dampen sales of existing and new homes, according to residential real estate and construction contacts. Commercial real estate contacts reported small improvements in market conditions since the previous Beige Book. Slight increases in activity were reported by service-sector firms, dampened somewhat by a hiring slump among customers. Price pressures from food, energy, and other commodities continue to affect many sectors. The ability to pass along costs remains mixed, and there is little evidence of wage pressure.

Third District business contacts continue to expect slow growth despite expressing increased uncertainty. Manufacturers forecast a modest rise in shipments and orders during the next six months. Retailers remain cautiously optimistic about future sales; auto dealers are more agnostic. Bankers expect slight growth in lending, at best. Residential real estate contacts are generally planning for a continuation of slow growth, comparable to last year. Contacts in commercial real estate continue to expect modest gains. Service-sector companies also expect continued slow growth.

Manufacturing. Since the last Beige Book, Third District manufacturers reported a lull in the growth of new orders and a slowdown in the modest growth rate of shipments. However, activity was reported to be a bit stronger in July. Among key manufacturing sectors in the Third District, the number reporting increases of both shipments and orders has narrowed since the last Beige Book. Growing product demand was reported by makers of furniture; instruments; stone, clay, and glass products; and printers and publishers. However, makers of food, apparel, chemicals, rubber, primary metals, fabricated metals, and electronics reported declining product demand. Comments from firms were mixed, with several citing an ongoing lull in customer demand, a few surprised by unseasonal increases, and many concerned by economic uncertainties.

Despite the uncertainties, Third District manufacturers have grown somewhat more positive in their outlook for business conditions over the next six months compared to the time of the previous Beige Book. Among firms contacted, over two-fifths expect increases in new orders and shipments, while about one-fifth expect decreases. One-third of firms polled project increases in capital spending over a six-month planning horizon – the same proportion as at the last Beige Book.

Retail. Third District retailers reported stronger sales in June than a year earlier. Shopping trips and a willingness to spend were aided by falling gas prices since the previous Beige Book. Consumers continue to search for value, and retailers continue to respond with merchandise at lower price points. Retailers remain cautiously optimistic as the critical September through December retail period approaches. However, given the slow growth so far this year, one retailer indicated that it would likely implement only half of this year's capital budget plan.

Third District auto dealers generally reported that sales eased further in June after May's slowdown. Results varied by brand, depending on reliance on Japanese production for the vehicle or parts. One dealer of General Motors brands indicated June was the dealership's best month of the year. Dealers remain uncertain about future sales.

Finance. Third District banks contacted in July indicated little change in loan volumes outstanding. Many sources reported continued weak demand from small businesses; some bankers cited stronger lending to middle market businesses. Revolving credit had bounced back somewhat in June, after a fall-off in April and May; however, the gains may have been lost in early July. On balance, total credit extended by banks in the region has been flat to slightly down. Expectations for better growth were not met for the most recent period – dampening expectations for anything but the slightest improvement in the near future, according to banking contacts.

Real Estate and Construction. Residential real estate activity in the Third District has changed little since the previous Beige Book. While some agents reported positive comparisons during June and early July for showings and sales compared to year-ago levels, activity last year was soft after the tax credit expired. Agents and builders continue to report stronger sales among mid- and low-priced homes, but incidences of high-priced home sales are increasing. Reports of multiple offers for condos in center city Philadelphia were noted by one agent as a glimmer of improvement. Most market participants do not expect the year as a whole to be markedly different from last year. In most parts of the Third District, sale prices of existing homes continue to fall slightly; in a few areas, prices were unchanged. Traffic and sales of new homes have weakened since the last Beige Book; however, one builder reported an uptick in activity in Pennsylvania in the last two weeks.

Commercial and industrial real estate contacts have noted small improvements in the Third District since the previous Beige Book. Overall, vacancy rates have improved for office space, industrial space, and apartments, although one manager said activity seems to have come to a standstill in the last month. Retail space vacancies may have edged up slightly; however, demand is stronger in regional centers and weaker at neighborhood sites. An ongoing trend of trading up for quality as office space leases renew has lowered vacancies and reduced concessions for Class A space, while raising vacancies for Class B space. Rents are generally steady for most sectors in most areas and concessions remain common.

Services. Reports from Third District service-sector firms were slightly positive overall, but firms described various challenges. A recurring theme was a recent slowdown in hiring, especially from small and medium-sized businesses. One staffing agency described "almost a stop to new [excludes replacement] hiring orders in the last three weeks." Other firms cited projects delayed due to ongoing economic uncertainties, including government-related projects contingent on budget negotiations. The most positive firms recognized that the "easy year-over-year comps are over" in this recovery and that continued growth will be slow. Despite these challenges, most service-sector firms expect growth to be somewhat better over the next six months.

Prices and Wages. Since the previous Beige Book, the percent of manufacturers reporting increases in prices paid for inputs dropped from more than one-half to one-third. Over the same period, the percent reporting decreases in prices received for their own products rose from nearly zero to over one-sixth. Rising commodity prices continue to pressure retailers, service-sector firms, and home builders to pass through costs when they can and to lower the price-point of their offerings. There are a few reports of a little upward pressure on rents in selected local markets for apartments and some retail space. Meanwhile, there is little evidence of pressure on wages.

FOURTH DISTRICT – CLEVELAND

Business activity in the Fourth District continued to expand at a modest pace, albeit at a slower rate since our last report. Manufacturers reported a slight rise in production and new orders, while freight transport volume continued to grow. Retail sales increased, but were below plan for some chains. New car sales weakened slightly. Energy companies noted little change in output. New-home construction is sluggish, whereas nonresidential building showed continued improvement. The demand for business and consumer credit remains low.

Rising payrolls were mainly limited to the manufacturing and energy sectors. Staffing-firm representatives noted moderate growth in the number of new job openings, with vacancies concentrated in manufacturing and professional business services. Wage pressures are largely contained. We heard fewer reports about rising prices for commodities and other raw materials. In particular, steel firms noted a leveling off in prices for their products, while food producers reported a slow decline in some agricultural commodity prices.

Manufacturing. Reports from District factories indicate that production was stable or rose slightly during the past six weeks. About half of our respondents noted a rise in new orders. Many of our contacts expect some slowing in the third quarter due to seasonal factors, followed by a modest pick-up later in the year. Almost all steel producers and service centers reported that shipping volume declined during the second quarter, which they attributed in part to weakening in the auto sector. Steel representatives anticipate volume remaining close to current levels through the end of the third quarter. Shipments are being driven primarily by heavy equipment and energy-related industries. District auto production showed a moderate rise in June on a month-over-month basis, as supply disruptions caused by events in Japan diminished. Year-over-year production fell, but declines were mainly limited to foreign nameplates.

Manufacturers remain committed to raising capital outlays in the upcoming months relative to year-ago levels. The number of contacts who earlier reported delaying the start of projects due to slowing in the recovery has declined considerably. Capacity utilization rates remain below what is considered normal for a majority of manufacturers. Reports on raw material pricing were mixed, and only a few of our contacts said that they had passed through price increases. Steel prices leveled off, while food producers reported a slow decline in some agricultural commodity prices. In general, manufacturers continued hiring at a modest pace. Wage pressures are contained.

Real Estate. New-home construction remains at a low level, with only two of our contacts reporting an uptick in sales during June. Purchases were mainly in the move-up buyer categories. Contractors expect that single-family construction will remain depressed until potential buyers can more easily sell their existing homes and the job market begins to gain some traction. List prices of new homes held steady, while the use of discounting grew. Upward pressure on the cost of building materials was reported by almost all of our contacts. Spec inventories were reduced further relative to year-ago levels. General contractors continue to work with lean crews, and no hiring is expected in the near term. Many subcontractors are struggling to stay in business and are bidding jobs below cost.

Activity in nonresidential construction strengthened somewhat during the past couple of months, with a few of our contacts noting a significant improvement when compared to year-ago levels. Inquiries are on the rise, and several contractors reported growing backlogs, albeit with weak margins. Construction is taking place in a broad range of industry sectors. Almost all of our contacts expect that activity will continue to slowly improve as the year progresses. Financing is available, though underwriting standards remain high. Banks are unwilling to lend for speculative projects, and they require additional equity when refinancing an existing property. Most of our contacts reported normal price fluctuations for building materials. Aggressive pricing on the part of both general contractors and subcontractors was widespread. Construction payrolls held steady, and little permanent hiring is expected in the upcoming months.

Consumer Spending. Reports from retailers indicate that sales for the period from mid-May through late June rose in the low to mid-single digits. However, for a few chains, the rate of growth was lower than expected. This was attributed mainly to inclement weather. Transactions were mostly higher relative to year-ago levels. Several of our contacts noted that rising sales included some higher-priced discretionary items. One retailer said that her overall sales were up due to elevated gasoline prices. Looking forward, retailers' expectations for the third quarter were mixed. We continue to hear about upward pressure on supplier prices, although it mainly affects food- and fuel-related products. Retailers passed through some of their increases to consumers. Reports on profit margins were mixed, with declines taken primarily by grocers. Capital outlays remain on plan and are slightly higher than year-ago levels. A majority of our contacts reported that they plan to expand the number of their retail outlets. However, no change in payrolls is expected at existing stores.

Most auto dealers reported that new-vehicle sales from mid-May through late June were below those recorded during the previous six-week period. On a year-over-year basis, vehicle purchases increased for almost all of our contacts. Demand for smaller, fuel-efficient cars continues to grow. However, with some retrenchment in gasoline prices, consumers are beginning to take a second look at SUVs and trucks. Inventories were characterized as low by many dealers, and they believe this may be a major contributor to slower sales. Dealers are cautious in their outlook due to uncertainty about gas prices, the economy, and the availability of vehicles that consumers want to buy. Demand for used cars remains fairly strong; however, scarce inventory is contributing to rising prices. Credit pricing remains very competitive, and the use of leasing as a credit alternative is growing. Many dealers are in the process of initiating factory-mandated programs for showroom upgrades and reimaging. Little change in dealer payrolls was reported.

Banking. Demand for business loans was generally soft, with activity driven by non profits and energy companies. A few of our contacts noted a pick-up in construction-loan requests for multi-family dwellings. On the consumer side, indirect auto lending was strong, while draw-downs on home equity lines of credit tapered off. Other installment loan categories remain weak. Many of our contacts reported downward pressure on interest rates for business and consumer credit. Applications for residential mortgages declined since our last report, with submissions equally distributed between refinancing and new purchases. Overall core deposits continue to increase, but the rate of growth has declined. We heard a few reports of easing credit standards for commercial and industrial loans, especially for attractive credits. The credit quality of business and consumer applicants was characterized as steady or improving. Most bankers reported a modest improvement in delinquency rates. No significant changes in employment levels were reported. However, about half of our respondents said that they expect selective hiring to occur this year.

Energy. Reports indicate that oil and natural gas drilling and production showed little change during the past six weeks, with activity in Marcellus and Utica shales continuing to grow. Wellhead prices paid to independent producers have declined. Demand for coal is rising, especially in overseas markets. However, due to transport issues and increasing governmental oversight in permitting and environmental compliance, production remained flat. Little change is anticipated for the remainder of the year. Spot prices for coal, particularly steam, moved slightly higher. Capital outlays are on target, with moderate increases projected by oil and gas companies in the upcoming months. The cost of production equipment and materials increased slightly since our last report. A modest rise in payrolls by oil and gas producers was reported.

Transportation. Freight transport executives told us that shipping volume expanded slightly, as the effects of supply chain disruptions due to events in Japan and severe spring weather in the U.S. dissipate. Expectations call for markets to continue growing at a modest pace in the upcoming months. The price for diesel fuel remains elevated, with most of the increase being passed through to customers via surcharges. Capital outlays are expected to accelerate during 2011. Spending is mainly to replace units that were in service longer than expected. Hiring has been largely for driver replacement. However, we heard a couple of reports that carriers are adding capacity, which remains below pre-recession levels industry-wide. Wage pressures are emerging due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview. Business activity in the Fifth District was unchanged or slightly improved in most sectors since our last assessment. In the service sector, retail activity on balance remained soft during the last month, while non-retail services firms reported flat or slightly increasing demand. Tourism to mountain and ocean destinations picked up in recent months. Banking activity improved moderately, but gains did not extend to commercial real estate. Indeed, both commercial Realtors and construction contractors reported that activity was little changed from weak conditions in past months. In contrast, however, residential Realtors indicated that low-to-medium priced homes across the District were generally lifting the market, if only slightly, since our last report. The manufacturing sector slowed over the last month, with several contacts citing softer demand. Finally, employment agencies specializing in temporary workers noted modest improvements in demand, with several adding that recent uncertainty about the direction of sales was causing their clients to postpone hiring full-time employees.

Manufacturing. District manufacturing stalled in July after exhibiting moderate gains in June. A producer of coated steel reported that orders had declined during the entire second quarter. He noted that typically the second and third quarters were the strongest for his company, but that he was not seeing any improvement in either June or July. Similarly, a furniture manufacturer indicated that business had slowed in recent months, particularly for furniture collections for the home. Several firms reported that working capital constraints, coupled with the inability to pass through raw material increases, had limited their ability to expand their business. In addition, a few contacts mentioned that automotive deliveries had slowed and material costs had increased recently as a result of the production interruptions in Japan. Our latest manufacturing survey indicated that prices of both raw materials and finished goods grew more slowly over the last month.

Fifth District ports continued to post moderate gains since our last report. With shipping moving into its peak season, however, several port authorities expressed concern that recent import gains were not as strong as expected. One official attributed the apparent sluggishness in May and June to retailers ordering earlier than normal last year (due to uncertainty over shipping rates), making year-over-year comparisons misleading. Another contact stated that the surge in trade that occurred over the last year was not sustainable, and also added that the weakening of the overall economy was affecting import volumes. A shipping official noted that many businesses were reluctant to build inventory and some retailers seemed to be holding back their orders, adding to a sense of “choppiness” to shipping activity. However, exports of coal and other commodities continued to do well, according to a port official, and auto imports were described by one contact as “amazing,” with automakers scrambling to rebuild depleted inventory. Several contacts expected shipping activity to pick up later this year, in part due to an increase in empty containers being shipped to Asia—presumably to be refilled for the Christmas holiday season.

Retail. Retailers across the District generally reported mixed sales since our last report. A few retailers, for example, reported that mid-price items languished in recent months, and customers bargained hard for discounts. Several clothiers told us that their apparel sales fell—except in higher-end goods. In addition, rising cotton and wool prices were pushing clothing prices higher. Our recent survey of retailers indicated some weakening in revenues, although the weakness was not as pronounced as a month earlier. However, several discount stores reported increased shopper traffic and an uptick in total sales. Grocery store contacts also reported rising sales, as did some wholesale building supply firms in the D.C. area. Several luxury retailers reported solid sales, and an auto dealer indicated strong sales in recent weeks. One West Virginia dealer noted that foreign makes continued to “outsell production.”

Services. Service sector activity was flat to slightly stronger in recent weeks. Revenues strengthened moderately, according to polled contacts, particularly in telecommunications. A number of builders and construction-related firms in the D.C. area also reported a pickup in business during the past month. Most contacts we surveyed at restaurants and hotels said revenues accelerated since the start of summer. However, advertising agencies indicated that business was flat, and healthcare services providers reported little change. Non-retail services providers’ prices rose at a slightly quicker pace over the last month, according to our recent survey.

Finance. Loan demand in the District continued to improve, albeit at an uneven pace, since our last report. Consumer lending increased in most banking markets, according to contacts, with several bankers citing examples of making loans for appliance replacements and home renovations. A loan officer in West Virginia noted increased loans for auto dealership inventory. And, a banker in North Carolina noted continued strength in industrial loans for warehouse buildings and machinery. However, another banker characterized industrial loans as going more toward high-tech capital goods than traditional machinery. Except for apartment buildings, commercial real estate loans declined in most areas around the District, with several commercial developers reporting continued difficulty getting financing. One banker, however, cited a pickup in commercial loan demand primarily from larger companies, while demand for small business loans in general edged downward. Most bankers stated that intense competition for quality loans was squeezing margins. Several contacts reported that credit quality was flat or slightly improved over the last few months, with the number of late payments edging down. A banker in Richmond said that small businesses, especially retailers, accounted for most cases of delinquencies.

Real Estate. Real estate activity edged higher since our last report. Several Realtors indicated that sales had picked up gradually and that their markets were more active than a year ago. While most of the gains were in the low-to-mid price range, activity also inched up for higher-priced homes in some areas. An agent in the D.C. area, for example, reported that properties in the mid-to-upper price range sold quickly, with the best sellers in the $800 thousand to $1.25 million price range. He added that relatively low inventory should keep market activity fairly strong in that area. A Realtor in the western part of North

Carolina said that he was "cautiously optimistic," but added that high unemployment in that area remained a serious drag on sales activity. Realtors throughout the District noted an increase in foot traffic, but sale price movements varied. Real estate agents in the Greensboro, N.C. and Greenville, S.C. areas stated that prices held steady, while a contact in the D.C. area cited a slight increase in sales prices.

Commercial Realtors and construction contractors reported little change from the generally weak conditions that prevailed in our last assessment, but a few encouraging signs were noted. A recent survey of contractors in the District revealed that one third of respondents experienced no change in construction activity over the last three months, while forty percent reported declining activity (compared to over fifty percent three months ago). Gains often came from government, medical, and higher education projects, which have been pockets of strength. However, several contractors reported a recent decline in higher education-related construction. On the Realtor side, most contacts continued to cite weakness in demand from small businesses for both office and industrial space. However, several Realtors noted a pickup in leasing to small retailers, especially independent restaurants. A Realtor in Virginia reported limited gains among car dealerships and nursing homes, with most of that business coming from long-standing clients. A Realtor in Raleigh reported some increase in the number of clients who expressed interest in taking out a lease in the near future. Finally, most contacts around the District indicated that rental rates were generally stable, and several Realtors reported a decrease in the number of requests for rent reductions.

Labor Markets. Fifth District labor market activity, especially among temporary employment agencies, improved slightly in recent weeks. Most contacts at temp agencies characterized demand as at least somewhat better in recent weeks, although a few agents cited weakness in demand for workers. However, virtually all agents indicated that demand was still stronger than a year ago. Several employment agents cited uncertainty about the economy as the primary factor behind hiring temporary help rather than full-time employees. For example, a Hagerstown agent said that many of his clients were still very uncertain about their future orders. As a result, they were using contingent labor more than they might if they felt that business volume would continue to increase. Increased demand for temporary workers was reported for a diverse set of skills, including light manufacturing assemblers, machine operators, forklift operators and quality inspectors. Respondents to our latest manufacturing survey indicated that employment demand, while fairly robust in June, was little changed in July. Retail hiring rose slightly, according to our recent survey, and hiring was little changed at non-retail services providers. A slight majority of both retail and non-retail respondents indicated that they were increasing wages.

Tourism. District tourism gained momentum in recent weeks. Contacts along the Mid-Atlantic coast reported bookings in line with a year ago—notwithstanding last year's "bump" from vacationers who relocated their vacations to the East Coast from the Gulf Coast during the oil spill disruptions. Hoteliers in several locations noted a trend toward last-minute bookings, although a contact on the coast of North Carolina cited last year's relocation crunch as the impetus for more advance bookings in her region this season. A resort manager in the mountains of western Virginia said that new summer attractions helped drive 95 to 100 percent occupancy at his site. July has been “fantastic,” according to a hotel representative in Baltimore, with occupancy pushed up by several big events and by an increase in the number of family reunions. Contacts reported mostly small rate increases for the summer. Most hotel and resort owners expressed optimism about potential business during the 2011 winter holiday season; some were already receiving inquiries.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts described economic activity as little-changed in June through mid-July. Retail sales grew slowly, although sales of higher-end goods saw more traction and tourism activity was strong. Existing home sales remained soft outside of Florida, while new home sales and construction were weak throughout the region. Downward pressure on prices of both existing and new homes continued to be noted. Contractors reported that the pace of commercial development was basically unchanged, although construction activity in healthcare and multi-family had improved. Manufacturing contacts indicated that production and new orders increased but at a slower pace than experienced earlier in the year. Credit availability for entrepreneurs and real estate developers remained tight, although loan availability for some commercial projects increased. Most business contacts indicated that their hiring plans remained modest. Firms' expectations for unit cost increases have softened, mainly because non-labor input costs have moderated. Some energy contacts have noticed a considerable uptick in early stage fabrication of oil and gas extraction capital goods. While most of the District continued to experience drought conditions, recent rains have provided relief to some of the District’s stressed farmlands.

Consumer Spending and Tourism. Most District merchants reported that retail sales growth was modest in June through mid-July, although some luxury goods retailers noted steady-to-improving sales. The outlook among most retailers was less optimistic than earlier in the year. The majority of contacts stated that they were keeping inventory levels lean and had no plans to increase supply in the near term. Mid- and high-end restaurant contacts reported improving traffic and sales, although their margins remained under pressure from non-labor input costs. Auto sales from Japanese manufacturers slowed, but dealers noted that the impact of supply disruptions from Japan is ending.

Leisure activity continued to accelerate in most areas. Contacts reported increases in room occupancy and rates in many areas. Strong attendance at theme parks, festivals, and coastal destinations was noted. Cruise bookings have risen as well, and airport contacts observed increases in passenger traffic. The overall outlook for tourism remained positive.

Real Estate and Construction. According to reports from District brokers, home sales were slightly ahead of last year’s weak levels. Gains continued to be driven largely by reports from Florida brokers. Outside Florida, the majority of contacts reported sales declined.

Brokers continued to report declining home inventory levels as fewer homes enter the market and that home prices were flat to slightly down compared with a year earlier. The outlook among Florida brokers was somewhat positive, but elsewhere sales are expected to remain weak.

District builders reported that new home sales and construction weakened somewhat in June compared with year-ago levels. Builders continued to report downward pressure on new home prices. Residential contractors reported that home improvement construction increased from earlier in the year; however, most reported that they were unable to effectively pass along all cost increases. Most builders anticipate that new home sales and construction will be slightly ahead of last year's weak levels over the next several months, and most expect renovation work will continue to improve.

About two-thirds of contractors reported that the pace of commercial development was flat to slightly up compared with weak levels from a year earlier, but backlogs continued to shrink. Contractors commented that healthcare and apartment construction were bright spots and that renovations in commercial and apartment space had increased. Most contractors anticipate activity for the remainder of this year will be flat to below year-ago levels. With regard to existing commercial structures, contacts reported that credit availability and absorption improved, especially in light industrial, warehousing, healthcare and energy-related space.

Manufacturing and Transportation. Manufacturing contacts indicated that production and new orders increased, but at a slower pace than reported earlier in the year. Producers of healthcare equipment and electrical components in particular noted stronger orders, and a producer of freight trucks is significantly increasing output. Many manufacturers reported increased investment in technology equipment in efforts to increase efficiency. While some contacts noted that the acceleration in input prices had begun to moderate, the price of metals remained elevated. Many contacts reported that supply chain disruptions from the disaster in Japan were beginning to moderate.

Freight forwarding and parcel shipping contacts reported a gradual slowing of domestic volume momentum in June through mid-July. The cost of fuel and other inputs continued to challenge shippers' operating margins; however, maritime contacts cited some success in passing along fuel surcharges. Input costs for trucking contacts – such as tires, replacement parts, and new vehicles – remained high.

Banking and Finance. Banking contacts reported that credit was available, but finding qualified borrowers continued to be difficult. Several cited increased competition for qualified loans. New residential real estate loans were limited, but banks were actively competing for refinances. Business contacts reported credit markets improved, but loan standards remained high. Credit availability for entrepreneurs and real estate developers remained tight, although loans were available for some commercial projects – namely hospitals and multi-family buildings.

Employment and Prices. Most business contacts indicated that their hiring plans remained modest. Uncertainty regarding future demand and the regulatory environment were the most commonly cited reasons for the muted hiring outlook. Of those that reported plans to increase employment, many pointed to having reached maximum productivity with existing staff. Staffing agency contacts continued to experience high demand for temporary or contract workers. According to reports, demand for qualified, higher skilled candidates is robust, especially in the technology sector. Most contacts said that they did not experience significant upward wage pressure, and characterized annual increases and bonuses as modest.

Firms' expectations for unit cost increases are more tempered than noted earlier in the year. Non-labor input costs have moderated, but remained elevated. However, downward price pressures from productivity gains were reportedly tapering off. While District contacts have continued to report that margins remained squeezed, there have been more frequent reports that some contacts are attempting to pass through input costs.

Natural Resources and Agriculture. Some energy contacts have noticed a considerable uptick in early stage fabrication of oil and gas extraction capital goods. Shipbuilding for shallow water supply boats has also increased. Shale exploration has increased as firms employed directional drilling techniques for oil and gas liquids.

While most of the District continued to experience drought conditions, recent rains have provided relief to some of the District's stressed pastures and crops. Based on results of a recent state survey, a contact reports concerns that farm labor shortages has had a negative impact on Georgia's fruit and vegetable production.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to expand slowly in June and early July. Contacts expressed heightened uncertainty about the economic outlook given recent weaker-than-expected demand as well as the ongoing fiscal issues in the U.S. and Europe. Consumer and business spending edged up. Manufacturing production continued to expand at a steady pace while construction remained flat. Credit conditions again improved modestly, despite increased volatility in financial markets. Commodity prices remained elevated, and there was further pass-through of these costs to prices downstream. After a late start to planting, crop conditions began to return to normal, but dryness and above-average temperatures were concerns for farmers in parts of the District.

Consumer spending. Consumer spending picked up some in June and early July. Consumers took advantage of retailers' efforts to clear inventory through early summer promotions. Spending on apparel and accessories increased as did expenditures on household goods like power equipment and lawn and garden items. In contrast, auto sales edged lower in June, as incentives decreased and showroom traffic declined; sales then improved moderately in early July. Small passenger cars and pickup trucks continued to account for most new vehicle sales. Inventories of small passenger cars remained lean due to continued supply disruptions for Japanese vehicles and higher demand for domestically produced small cars. Demand for used vehicles remained strong, and with used car inventories relatively low, prices rose further.

Business spending. Business spending also edged up from the previous reporting period. Inventory investment decreased, but expenditures for equipment and structures increased. Several manufacturers reported plans to expand capacity, with a number of projects set to break ground in the District this fall. Renovation of retail facilities picked up further. In addition, contacts reported an increase in spending on research and development. Hiring continued at a slow pace, with many manufacturers reiterating the difficulty in finding appropriately skilled workers. On balance, however, labor market conditions weakened, as a number of private and public sector layoffs were reported and unemployment ticked up in the District. Furthermore, a large staffing firm reported a decline in billable hours.

Construction/real estate. Construction activity remained subdued in June and early July. Construction of new single-family homes slowed, while the construction of apartment buildings increased. Residential real estate conditions remained weak. The spring and early summer season saw a slight uptick in new home sales in the District, which, according to contacts, tends to be a leading indicator of the sales volume for the remainder of the year. In addition, although more potential homebuyers are qualifying for mortgages, contacts noted that downward pressure on existing home prices continues to restrict the availability of credit for new single-family construction. In contrast, nonresidential construction edged up with continued strong demand for industrial facilities, particularly from the automotive sector, partially offset by continued weakness in office and retail construction. Commercial real estate conditions also improved, albeit moderately. Vacancy rates edged lower, with net absorption stabilizing in the retail segment and rebounding in the office market.

Manufacturing. Manufacturing production continued to expand at a steady pace from the previous reporting period. Automakers indicated that production was recovering from the Japanese supply chain disruptions in the second quarter. Auto inventories remain relatively low, but given recently lower sales, contacts reported that production would likely recover less sharply than previously expected. A contact in the auto supply industry noted that production losses from the Japanese disasters had been smaller than anticipated, but that efforts to work around supply disruptions resulted in increased expenses for labor, logistics, and parts, putting pressure on suppliers' margins. Capacity utilization in the steel industry reached its highest point since 2008; additional capacity is being added, but at a slow rate. In addition, contacts reported that steel service center inventories are tight. Several manufacturers of industrial metals reported increases in orders as well as significant backlogs in June; however, a few also noted slower activity in recent weeks. Despite some softening in demand from Asia and Europe, overall demand for heavy trucks and equipment continued to be strong, driven by fleet replacement and robust activity in the mining sector. In contrast, shipments of household appliances declined.

Banking/finance. On balance, credit conditions improved modestly in June and early July. Funding costs and liquidity tightened marginally and volatility increased in a number of financial markets. In addition, contacts expressed concern about the negative consequences that a potential sovereign default would have on financial markets. Credit availability continued to improve, though standards remained tight for many borrowers. Competition among lenders for the highest-quality customers has been stiff, lowering the cost of capital for these borrowers. Business loan demand was steady. Businesses continue to mostly refinance existing debt, though a contact noted that increasingly such deals were also beginning to include an expansionary element. Consumer loan demand improved, with the pace of deleveraging by consumers slowing somewhat. The rate of improvement in both business and consumer loan quality reportedly flattened out.

Prices/costs. Cost pressures remained elevated in June and early July. Food prices continued to rise, while prices for energy and some industrial metals, like steel, declined. Despite these recent declines, prices for many commodities remain elevated, and contacts indicated that fuel surcharges and shipping costs have yet to come down. Many wholesale prices also continued to rise, with pass-through of these higher costs to the retail sector picking up from the previous reporting period. Wage pressures, however, remained moderate.

Agriculture. There were mixed changes in crop conditions throughout the District. A small percentage of acres along the Missouri River were lost to flooding. Though there was some concern about recent above-average temperatures, contacts still see the potential for good to excellent corn and soybean yields this fall, contingent upon favorable weather for the rest of the summer. Historically low stocks of corn and soybeans have put a premium on delivery commitments before harvest. On balance over the reporting period, cash prices for corn, wheat, and cattle were down while prices for soybeans, milk and hogs prices moved higher; all of these prices, however, remained above the levels of a year ago. Livestock operations faced margin pressure from high feed costs. Some elevators were under financial pressures due to expanded margin calls on their contracted positions as well as higher costs for planned input purchases for next year's crop.

Eighth District - St. Louis

Summary

Economic activity in the Eighth District has continued to increase at a modest pace since our previous report. Manufacturing activity has continued to increase since the previous report. Activity in the services sector also has increased. Residential real estate activity has continued to decline. In contrast, commercial and industrial activity has improved modestly in some areas, although commercial construction activity has remained slow. Lending at a sample of small and mid-sized District banks declined in the three-month period from late March to late June.

Manufacturing and Other Business Activity

Manufacturing activity has continued to increase since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants or reduce operations. Firms in the wood, organic dye, automobile parts, lime, and hygiene product manufacturing industries reported plans to expand operations and hire new workers. Furthermore, a major firm in the automobile manufacturing industry announced plans to hire a significant number of new workers. In contrast, firms in the ice cream, air conditioner, and wrapping paper manufacturing industries announced plans to close plants and lay off employees.

Activity in the District's services sector has increased since our previous report. Firms in the business support, human resources administration, entertainment, hotel, and tire wholesale industries announced plans to expand operations and hire new workers. In contrast, contacts in the government, newspaper publishing, restaurant, and education industries reported plans to decrease operations in the District and lay off employees. General retailers report that sales have slowed in recent weeks. Auto dealers report inventory shortages of quality used cars as well as new car models that contain parts supplied by Japan.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, May 2011 year-to-date home sales were down 15 percent in Louisville, 13 percent in Memphis, and 21 percent in Little Rock and St. Louis. Residential construction also continued to decline throughout the District. May 2011 year-to-date single-family housing permits decreased in the majority of the District metro areas compared with the same period in 2010. Permits decreased 30 percent in Little Rock, 34 percent in St. Louis, 23 percent in Memphis, and 27 percent in Louisville.

Commercial and industrial real estate activity has experienced modest improvement in some regions, while construction activity remained slow throughout most of the District. A contact in central Arkansas reported that while office real estate activity continues to be stagnant, there are more commercial space inquires from national tenants. A contact in Memphis noted a slight increase in office space demand in the first half of 2011 but noted unchanged activity for industrial real estate. Contacts in St. Louis noted demand growth for both industrial and office space but slow construction activity. Contacts in Louisville reported increased industrial space leasing activity and expect further demand growth in this sector as new construction remains limited. Contacts in northeast Arkansas noted growth in commercial real estate sales and construction in the Jonesboro and Paragould areas.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 1.0 percent from late March to late June. Real estate lending, which accounts for 74.3 percent of total loans, decreased 1.4 percent. Commercial and industrial loans, accounting for 15.6 percent of total loans, increased 0.8 percent. Loans to individuals, accounting for 4.7 percent of total loans, decreased 6.0 percent. All other loans, roughly 5.4 percent of total loans, increased 13.6 percent. During this period, total deposits at these banks decreased 0.5 percent.

Agriculture and Natural Resources

The majority of the corn, soybean, sorghum, rice, and cotton crops in the Eighth District are currently in fair or better condition. Winter wheat harvests are either complete or close to completion in all District states, and the production of winter wheat and the area harvested for the crop increased from 2010 to 2011. Finally, the fraction of pastures in good or better condition has declined in most District states since our previous report. Year-to-date coal production for the District, at the end of June, was 6.1 percent higher than the same period in 2010, and monthly production for June was 1.3 percent higher than production for June 2010.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew modestly, but activity was disrupted by widespread flooding and a temporary Minnesota state government shutdown that started on July 1. Increased activity was noted in consumer spending, residential construction, commercial and residential real estate, services, manufacturing, energy and mining. Mixed activity was noted in tourism and agriculture, while commercial construction was steady. Private sector hiring grew modestly, and wage increases continued to be moderate. Overall price increases were moderate, although pressure remains on a number of input prices.

Consumer Spending and Tourism

Consumer spending posted measured growth. A major Minneapolis-based retailer reported that same-store sales in June increased over 4 percent compared with a year earlier. Two Minneapolis area malls noted that recent sales were trending above year-ago levels. A representative of an auto dealers association in Montana indicated that sales activity at dealerships during the past few months increased over last year. A Minnesota auto dealer noted that sales and service volumes were up from last year.

Summer tourism activity was mixed. In western South Dakota, wet weather dampened the start to the season, but summer reservations for RV camping were up about 2 percent. A travel agency in Minnesota noted that both corporate and leisure business were up from a year ago. However, Minnesota state parks were closed during the government shutdown. Flooding in North Dakota has slowed tourism activity, including cancelation of this summer's state fair in Minot.

Construction and Real Estate

Several contacts from across the District reported that recent commercial construction activity was steady at low levels, while construction had stalled in flooded areas. A nutritional supplement producer is building a major addition in Montana. However, construction in the Minnesota transportation sector stalled during the state government shutdown. Some private nonresidential construction was delayed by lack of state government building inspectors. Residential construction increased from last year. The value of residential building permits in June increased 19 percent from the same period a year earlier in the Sioux Falls, S.D., area; in Minneapolis-St. Paul, the value of June permits increased significantly from a year ago.

Commercial real estate markets increased slightly since the last report. Minnesota commercial real estate industry representatives expect higher rents and lower vacancy rates, according to a May survey by the University of St. Thomas. Retail real estate industry analysts expect a slight increase in absorption, but decreases in rent over the summer in the Minneapolis-St. Paul area. Residential real estate markets grew. Home sales during June in Minneapolis-St. Paul and Billings, Mont., were up from last year's post-tax-credit lull in sales. June pending sales of homes in the Sioux Falls area increased from June 2010, but new listings and the median sales price decreased.

Services

Professional business services firms reported increased activity over the past three months. Results of a mid-July Minneapolis Fed ad hoc survey of 55 professional services firms indicated that 47 percent of the respondents saw increased sales, while 29 percent saw decreased sales. Respondents noted that profits and employment also increased. The respondents expected this trend to continue over the next three months. However, a few contacts commented that the Minnesota state government shutdown negatively affected their business.

Manufacturing

The manufacturing sector grew modestly. A survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased in June in Minnesota and South Dakota, while activity declined in North Dakota, due in part to flooding disruptions. Nearly 70 percent of manufacturing respondents to the Minneapolis Fed ad hoc survey said their sales increased in the past three months. However, in North Dakota, an electric vehicle plant closed in June to consolidate production in Iowa, and a military equipment plant will close in August.

Energy and Mining

Activity in the energy and mining sectors was steady. A renewable energy firm recently announced that it will acquire a biodiesel plant in southern Minnesota, which has been idle since 2008, and resume operations there. Wind-energy development projects continued since the last report, including the opening of a 40-megawatt wind farm in Minnesota. However, a utility announced that it was canceling plans for a $38 million wind farm in western South Dakota. Mid-July oil exploration activity decreased slightly from early June. Mining activity continued at a strong pace across the District.

Agriculture

Agriculture was mixed. While production in western portions of the District was hampered by severe flooding, prices for agricultural outputs remained strong. Preliminary estimates suggest that 6.3 million acres in North Dakota may have gone unplanted due to flooding. Contacts suggested that impacts on hay and feed crops could increase costs for some cattle producers, but a bank director noted that overall hay production in Montana and the Dakotas will be very strong due to moisture conditions. In other parts of the District, crop progress has fared better recently than early-season indicators suggested, but is still behind last year's pace. Prices for some District agricultural commodities increased since the last report, including corn, soybeans and dairy products; however, cattle and wheat prices decreased recently.

Employment, Wages and Prices

While private sector hiring grew modestly, the Minnesota government shutdown resulted in 22,000 temporary layoffs of state government employees. In Minnesota, a company recently announced plans to build a data center that is expected to provide more than 100 jobs, and a steel producer will add 60 jobs this year. According to a survey by an employment services firm, 20 percent of respondents in Minneapolis-St. Paul expect to increase staffing levels during the third quarter, while 3 percent expect to decrease staff. Businesses in eastern Montana and western North Dakota continued to have difficulty finding workers due to strong oil drilling activity in the region.

Wage increases were moderate. Recent settlements with labor unions generally included modest wage increases over the next two to three years. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 34 percent expect to increase employee compensation at their companies over the next six months, up from last year's survey, when 24 percent expected increases.

Overall price increases were moderate, although pressure remains on a number of input prices. Mid-July Minnesota gasoline prices were about the same as early June, but were $1 per gallon higher than a year ago. Meanwhile, prices for copper, lead, nickel and zinc increased. A Minnesota-based food producer reported that food ingredients are expected to rise at least 10 percent over the next year.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded at a moderate pace in the June and early July survey period. Consumer spending rose solidly and was especially strong among restaurants and auto dealers. Factory production rebounded from weakness in the prior survey period, and high-tech and transportation services firms reported continued growth. District bankers reported weaker loan demand but increased deposits and improved loan quality. Weak home sales and expanded inventory levels further pressured single-family home prices, while commercial real estate activity remained slow but stable. Activity in the energy sector was robust as drilling expanded in most District states. Conditions in agriculture were generally strong. Rising input costs were reported in several sectors, but wage pressures were limited to select industries and occupations.

Consumer Spending. Consumer spending increased at a solid pace in June and early July, and most contacts expected sales gains in the months ahead. Auto dealers reported strong sales despite reduced incentives, with demand strongest for small, fuel-efficient vehicles. Dealers noted the continued benefit of low interest rates on sales and attributed some of the recent sales boost to tornado damage in areas of Oklahoma and Missouri. Car and light truck inventory levels were reported as generally satisfactory, although shortages remained for some Japanese nameplates due to the tsunami. Restaurant sales accelerated in June, and the outlook for the coming three months remained strong. However, restaurant profit margins were pressured by increased food costs and a further decline in the average check amount. General retailers in the District reported flat sales in the survey period, but activity remained well above year-ago levels. Current retail inventories were viewed as adequate, but many retailers planned to expand inventory in the coming months. Sales of low price consumer goods were strong, while sales of many luxury items remained sluggish. District tourism visitor counts were generally up, especially at Colorado mountain resorts, but were slowed by wildfires and drought in northern New Mexico. District hoteliers reported increased occupancy and daily room rates.

Manufacturing and Other Business Activity. Tenth District manufacturing activity rebounded from weakness in the prior survey period, while high-tech and transportation activity expanded further. Factory operators reported that both production and shipments bounced back following weakness in May. The outlook among manufacturers remained positive as new orders and backlogs similarly rebounded. Inventories of finished goods were stable. Factory employment increased in June for the eighth consecutive month and the average workweek expanded slightly. Raw materials costs increased and put upward pressure on finished goods prices. Factory operators also indicated slightly weaker capital spending plans in the coming six months. Transportation services firms reported increased activity in the current survey period and were optimistic about future bookings. Several trucking contacts cited continued difficulty attracting qualified over-the-road drivers. Sales growth was strong at high-tech firms despite some downward price pressure. High-tech firms remained optimistic about future sales gains and planned to increase capital spending in coming months.

Real Estate and Construction. Excess inventory weighed on single-family home prices, while commercial real estate remained weak but stable. Real estate firms reported flat existing home sales, higher home inventory, and lower home prices in June and early July. Contacts reported an increased share of existing home purchases by investors in all-cash transactions. Expectations for improvement in the housing sector were subdued. Home builders reported little new construction activity but noted increased buyer traffic. Entry-level homes sold well, along with high-end homes in some Colorado mountain resort communities. Apartment managers reported higher rents and lower vacancy rates. In commercial leasing, absorption and vacancy rates were flat, and only small declines in rent and prices were reported. Further declines in rent and prices were expected and overall commercial leasing terms continued to favor tenants. Commercial construction remained stable but weak, with strength reported in multi-family residential projects. Builders indicated that access to credit improved slightly. Construction supply firms reported increased sales since the last survey, though inventories increased. Construction materials prices remained steady excluding petroleum-based products.

Banking. In the recent survey period, bankers reported weaker loan demand but increased deposits and improvements in loan quality. Overall loan demand was slightly weaker than in the previous survey. Demand for residential real estate loans was unchanged, while demand for commercial and industrial loans, commercial real estate loans, and consumer installment loans decreased. Credit standards remained unchanged in all major loan categories, and deposits increased for the fourth straight survey. Bankers reported improvements in loan quality compared with a year ago and in the outlook for loan quality over the next six months.

Energy. District energy activity expanded at a solid pace since the last survey, and contacts expected continued growth in coming months. Drilling activity expanded in most District states, however extended permitting delays were noted on Bureau of Land Management sites in Wyoming. Oil and gas contacts expected little change in crude oil and natural gas prices in the coming three months. Energy firms increased hiring in the current survey period but reported difficulty finding qualified workers. Availability of equipment remained a constraint to expansion, but financing was viewed as adequate. Weak coal production in the Powder River Basin kept output well below year-ago levels. Ethanol production edged up with slightly higher prices and profits this summer.

Agriculture. Agricultural conditions varied with weather and input costs. Poor pasture conditions due to drought in the Southern Plains prompted increased placements of cattle in feedlots. However, initial reports on wheat yields in drought areas of Kansas and Oklahoma were poor but better than expected. The corn and soybean crops were progressing normally and generally rated in good or better condition, especially in Nebraska. Agricultural commodity prices remained high but volatile in recent weeks, shifting with export and production forecasts. Rising feed costs trimmed margins for livestock producers. Higher prices for fertilizer, fuel, and feed boosted farm loan demand. Elevated crop prices fueled further gains in District cropland values.

Wages and Prices. District contacts reported only limited wage pressures but noted additional upward pressure on input prices. Labor shortages and wage pressures were reported in the retail sector and for select occupations in the high-tech, energy, and transportation sectors. In addition, several contacts expected future non-wage employment costs to rise as a result of increased state unemployment insurance premiums. Manufacturers reported continued upward pressure on input costs; slightly fewer manufacturers reported increased finished product prices. Builders reported higher overall prices for construction materials, and transportation contacts remained concerned about the impact of high fuel costs on profit margins. Expectations across most industries were for further input price increases in the coming three months. Restaurants had raised menu prices since the last survey and expected further increases in the coming months.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. Energy-related activity remained strong. Reports from manufacturers were mixed but mostly positive, although some construction-related producers were less optimistic than they were six weeks ago. Nonfinancial services activity rose, with strong demand for staffing services. The single-family housing sector remained weak, but the commercial real estate sector continued to improve. Financial services respondents said overall loan demand was flat during the reporting period, and contacts in the agricultural sector noted drought conditions worsened.

Prices Selling prices were flat or higher since the last report. Most manufacturers said selling prices were stable, while several service sector companies were able to enact some price increases, including transportation and retail firms. These price increases were in response to higher input prices. Accounting, legal and staffing firms reported slight increases in rates charged for their services. Input prices increased at most responding firms, although several contacts said upward pressure from higher energy costs eased in recent weeks as oil prices declined. Transportation firms, including airlines, noted that the recent price declines for fuel will have a larger impact on input costs later in July and August. Retailers said cost pressures were squeezing margins, and food manufacturers said commodity prices were up significantly from last year.

The price of crude oil fell from over $100 per barrel in early June to about $95 at the end of the reporting period in early July. Gasoline prices fell about 15 cents during the reporting period. Natural gas prices remained in the $4-$5 per Mcf range, but edged up since the last report because of hot weather. Prices for most petrochemical products fell since the last report, according to contacts.

Labor Market Employment levels held steady at most responding firms, although there were several reports of hiring. Staffing firms reported continued strong demand for their services. In addition, there were some mentions of moderate employment increases from automobile dealers, transportation service firms and manufacturers of primary and fabricated metals, transportation equipment, lumber and food. Legal firms noted solid demand for talented attorneys, and added that start dates for some new hires had been moved up from January 2012 to fall 2011. In contrast, one construction-related manufacturer reported a new round of layoffs, and one retail firm was considering reducing staff levels next year. Wage pressures remained minimal, although some contacts noted that they were giving modest pay raises.

Manufacturing Reports from construction-related manufacturers were mixed. Overall, activity levels appeared to be unchanged. Multifamily activity provided a boost to some firms, although several contacts said public and government demand had diminished. In particular though, fabricated metals producers noted a pick-up in growth since the last report due to infrastructure projects. Construction-related outlooks were generally flat to slightly up, and contacts believe there will not be much rebound until residential and commercial construction recover, which may take longer than previously expected.

Respondents in high-tech manufacturing reported that growth in orders remained at a moderate pace since the last Beige Book. One respondent with greater-exposure-than-average to Japanese production said second-quarter sales were well below pre-earthquake expectations, but that growth in June was strong enough to finish the quarter slightly above their expectations. Inventories were at desired levels, although one respondent said that a one-time reduction in orders from a customer left them with slightly higher-than-desired levels. Most contacts expect orders and sales growth to remain moderate or to pick up slightly in the second half of the year.

Reports from paper manufacturers were mixed. Demand for corrugated packaging improved, but paper suppliers noted flat to slightly slower sales. Manufacturers of non-defense transportation equipment reported strong sales with demand flat to slightly up since the last report and well above year-ago levels. Food producers said sales continued to rise at a steady pace.

Petrochemical producers said demand remained strong for most products. Contacts said domestic demand has improved, and export markets have re-opened since the last report. Refinery utilization moved up to near 90 percent, and contacts in the refining industry said margins narrowed slightly but remained very strong, although demand for oil products is slightly lower than the same time last year.

Retail Sales Retailers reported a slight increase in activity over the reporting period. Compared to a year ago, same store sales are up in the mid-to-low single digits. Apparel and jewelry are segments that have performed well recently. Concerns remain regarding the elevated level of unemployment. Texas sales increased slightly more than the nation on average, according to one large retailer. The second half of the year should see modest year-over-year growth. Automobile demand remains strong, but supply constraints stemming from Japan are limiting sales. Japanese manufacturers are primarily affected, but inventories of domestic autos are below desired levels as well. This is expected to last for another 90 days or less before improving through year-end.

Non-financial Services Staffing firms reported continued strong demand for their services. Temp-to-hire activity has been a bright spot, with long assignment lengths and several conversions to permanent hires. Outlooks are cautiously optimistic, with most respondents expecting continued strength in demand through year-end. Accounting firms noted a seasonal slowdown in demand for their services. Legal firms reported mostly steady demand, with continued growth in transactional services.

Intermodal cargo volumes increased since the last report, but year-over-year volumes are down due to a sharp decline in Asian demand for raw materials. Contacts in railroad transportation noted a broad-based increase in shipments, with particularly strong volume growth in metallic and nonmetallic ores and grains. Container volumes declined during the reporting period, although contacts said demand has strengthened from a year ago, due to energy-related activity. Small parcel shipments rebounded in June after declining in May. Still, outlooks are more pessimistic than previously reported, partly due to high fuel costs dampening consumer spending. Airlines report some softening in demand in June compared with May, likely due to an increase in airfares for last-minute travel. However, passenger volumes are up on a year-over-year basis, and the outlook for the summer is positive.

Financial Services Financial firms reported relatively flat loan demand. National banks reported less pickup in corporate loan demand following a very active first half of the year, while commercial real estate (CRE) activity has continued its trend of improvement. Regional banks noted that loan demand has been mixed, while loan pricing remains aggressive amidst a highly competitive lending landscape. Outlooks are generally positive in light of better outstanding loan quality and continued gradual improvement in lending conditions. Optimism has been tempered by consumer fear regarding economic and fiscal policy uncertainty as well as the burden and costs associated with the implementation of new regulations.

Construction and Real Estate Single-family home sales remain weak, particularly in the lower priced segment of the market. Contacts say demand is choppy from month to month, but most expect some improvement in the second half of the year.

Apartment demand remains strong and rents continue to increase. Contacts noted the Dallas/Fort Worth area topped the national rankings in leasing activity in the second quarter.

Office and industrial real estate activity improved since the last report. Contacts say Texas markets are performing better than the national average overall. One respondent noted office demand was quite strong in Texas' major metros and that rents were starting to rise. Investment property sales continued to improve from low levels, and prices rose slightly.

Energy Domestic drilling activity remained strong since the last report, according to Eleventh District firms in the energy industry. The rig count continues to shift towards oil-directed drilling, and contacts noted horizontal drilling and fracturing activity remain very profitable. In the Gulf of Mexico, 15 rigs have been re-permitted—with seven currently working and near completion—although a lack of new permits this year has led to some concerns about the prospects for Gulf work later in the year. International activity remains strong, but profit margins are thin.

Agriculture Drought conditions worsened, with about three-quarters of the district now in the most severe drought classification. Most Texas counties were designated natural disaster areas in June because they lost at least 30 percent of crops and pasture to drought. President Obama signed a disaster declaration in July for 45 counties in Texas that were heavily impacted by wildfires, which allows federal aid to help with recovery efforts. Crop conditions continued to deteriorate, causing low yields and complete crop losses in some instances. Farmers will depend heavily on crop insurance payments this year. Ranchers continued to cull herds due to very poor grazing conditions, limited hay supply and costly supplemental feeding.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District grew modestly during the reporting period of June through mid-July. Upward price pressures eased overall as the prices of oil and selected raw materials fell, and upward pressures on wages remained quite limited on balance. Sales of retail items were mixed, while demand for business and consumer services rose somewhat. District manufacturing activity strengthened slightly. Sales continued to grow for agricultural producers, while mining and extraction activity for natural resources expanded further. Home sales and construction remained sluggish, and demand for commercial real estate was weak overall, although continued modest strengthening was noted for some areas. Contacts from financial institutions reported largely stable loan demand.

Wages and Prices

Upward price pressures were limited during the reporting period. Price declines were noted for oil and selected raw materials such as aluminum. Furthermore, modest demand and stiff competition continued to hold down final prices for most retail goods and services, although food prices remained quite elevated. Looking ahead, contacts in most sectors anticipate that prices for their products will remain largely stable to slightly up through the end of the year, with larger gains expected for apparel.

Contacts reported that upward wage pressures were very modest overall, although some pointed to notable increases in the costs of employee benefits. Compensation gains in most regions and sectors of the District continued to be held down by high unemployment and limited hiring activity. However, upward wage pressures remained pronounced in various sectors for workers with specialized skills in the application of information technology.

Retail Trade and Services

Retail sales were mixed. Sales were largely flat for discount chains, while traditional department stores, particularly those catering to the luxury segment of the market, noted ongoing sales gains. Similarly, retailers of big-ticket items such as major appliances and furniture reported modest sales increases since the prior reporting period. Grocery sales remained largely flat. Sales of new automobiles declined, as lingering supply chain disruptions associated with the natural disaster in Japan earlier this year significantly reduced dealer inventories. In response to the shortage of new vehicles, dealer demand for used vehicles ramped up, further bolstering sales prices and trade-in values.

Demand for business and consumer services increased on balance. Sales continued to expand for providers of technology services, in particular for digital media services used for Internet-capable mobile devices. By contrast, demand for transportation services remained largely flat, as did demand for professional services. Suppliers of energy services reported further growth in deliveries to households and businesses, although the pace of growth slowed. Providers of health-care services reported that demand for their services remained weak. Restaurants and other food-service providers saw demand soften slightly. However, conditions continued to improve in the travel and tourism industry, with further demand growth reported in both the business and tourism segments of the market.

Manufacturing

District manufacturing activity strengthened a bit further during the reporting period of June through mid-July. Production rates remained near capacity for makers of commercial aircraft and parts. Demand improved modestly for manufacturers of semiconductors and other technology products, with reports pointing to high levels of capacity utilization, continued growth in sales, and inventories that were at or near desired levels given the pace of sales. Production activity and sales improved somewhat for metal fabricators, with gains in foreign demand more than offsetting weak domestic demand. Similarly, capacity utilization rates remained largely stable for petroleum refiners, as export growth for gasoline and distillate products helped to reduce inventories. Demand continued to be especially weak for wood product manufacturers, with the exception of the pulp and paper sector, which has seen sustained increases in orders.

Agriculture and Resource-related Industries

Demand continued to grow for agricultural products, and it expanded further on net for mined products and natural resources used for energy production. Final sales and orders were robust and continued to grow for a range of crop and livestock products. Contacts generally noted stable input costs and supply conditions, although wildfires in Arizona caused widespread destruction of grazing land, prompting ranchers to reduce their stocks and causing sharp financial losses in some cases. Mining activity in parts of the District expanded further in response to elevated prices for an assortment of metals. Strong global demand for oil combined with a slight increase in domestic demand, prompting additional increases in extraction activity, and extraction of natural gas was largely stable or grew somewhat.

Real Estate and Construction

Home demand in the District was essentially unchanged at very low levels, and demand for commercial real estate remained weak, albeit with further modest improvement in some areas. The pace of home sales remained sluggish across the District, putting downward pressure on prices and the pace of new home construction, although sales of existing homes picked up a bit in parts of California. In contrast to homeownership, demand for rental space continued to grow, prompting rent increases and rising construction activity for multifamily units in some areas. Conditions in commercial real estate markets remained challenging, as vacancy rates for office and industrial space stayed high in many parts of the District. However, contacts continued to note improvement in investor demand and leasing activity in a few major markets, primarily in the San Francisco Bay Area and Seattle.

Financial Institutions

District banking contacts reported that loan demand was little changed on balance compared with the previous reporting period. Businesses' cautious approach to capital spending continued to restrain demand for commercial and industrial loans, although scattered reports pointed to intensifying competition among lenders to extend credit to well-qualified small and medium-sized businesses. Looking ahead, reports from contacts in most sectors suggest that capital spending will expand only modestly through the duration of the year. Consumer loan demand was largely unchanged. Lending standards remained relatively restrictive for most categories of business and consumer loans. Venture capital financing expanded further, with contacts noting heightened levels of IPO activity.