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Summary of Commentary on ______________________________

Current Economic Conditions

By Federal Reserve District

August 2011

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICT

AUGUST 2011

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic activity continued to expand at a modest pace, though some Districts noted mixed or weakening activity. The St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts all reported either modest or slight expansion. Atlanta said activity continued to expand at a very subdued pace, while Cleveland reported slow growth and New York indicated growth remained sluggish. Economic activity expanded more slowly in the Chicago District and slowed in the Richmond District. Business activity in the Boston and Philadelphia Districts was characterized as mixed, with Philadelphia adding that activity was somewhat weaker overall. Several Districts also indicated that recent stock market volatility and increased economic uncertainty had led many contacts to downgrade or become more cautious about their near-term outlooks.

Consumer spending increased slightly in most Districts since the last survey, but non-auto retail sales were flat or down in several Districts. Although poor weather dampened growth in some areas, tourist activity remained solid in most Districts. The demand for services was generally positive throughout the nation, but one region said conditions were deteriorating. Of the five Districts reporting on transportation, three said conditions were mostly positive, while the other two reported activity as flat or slightly below expectations. Manufacturing conditions were mixed across the country, but the pace of activity slowed in many Districts. Residential real estate markets remained weak overall with only a few slight improvements in some Districts. Most Districts characterized commercial real estate and construction activity as weak or little changed, but improvements were noted in several areas. Loan demand remained stable or

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* Prepared at the Federal Reserve Bank of Kansas City and based on information collected on or before August 26, 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.

slightly weaker, and lending standards were largely unchanged with an improvement in loan quality. Harsh summer weather negatively affected agricultural activity, although recent rains in several Districts provided some relief. Districts reporting on energy activity said it generally expanded, with further growth expected.

Price pressures edged lower, although input costs continued to increase in some industries and retail prices rose in several Districts. Labor markets were generally stable, although some Districts reported modest employment growth. Wage pressures were generally minimal outside of some upward movement for skilled positions.

Consumer Spending and Tourism

Overall consumer spending increased slightly in most Districts, but non-auto retail sales were flat or down in some Districts. Hurricane Irene evacuations also produced widespread retail disruptions in late August in the New York District, where activity had been close to or above plan in July before slowing somewhat in early August. The Minneapolis and Kansas City Districts reported moderate increases in non-auto retail sales during the survey period, and sales in the San Francisco District were mixed but up slightly overall. Retail sales were up single-digits from a year ago in the Cleveland and Dallas Districts, although Dallas reported no growth in sales since the previous survey period. Retailers in the Chicago District reported strong back to school sales, while Atlanta said growth slowed in retail sales. The Boston and Philadelphia Districts said sales were flat to down but with sizable variation across stores, while sales mostly weakened in the Richmond and St. Louis Districts. Sales of apparel and luxury items were characterized as strong in several Districts. The Boston, Chicago, Kansas City, and San Francisco Districts all noted sluggish sales of big ticket household items such as furniture and appliances, and contacts in several Districts thought that heightened consumer anxiety was weighing on sales. Contacts in some Districts continued to indicate profit margins were being squeezed by rising input costs, although grocers in the Cleveland District were passing cost increases through to customers.

Most Districts reporting on auto sales noted increases in activity, despite lingering supply disruptions for some Japanese nameplates. The Kansas City and Cleveland Districts reported especially strong sales of fuel-efficient cars, while luxury vehicles sold well in the Minneapolis District. High demand for used cars was reported in several Districts. The New York and Philadelphia Districts reported somewhat softer auto sales in July, attributed in part to continued supply disruptions, although sales firmed somewhat in August. Tight vehicle supplies were noted in some Districts, and the San Francisco District noted ongoing shortages of Japanese nameplates. Auto contacts in the Dallas District believed the supply issues from Japanese manufacturers should be resolved by the end of September. Auto dealers in several Districts were optimistic about future sales, although contacts in the Philadelphia District said uncertainty clouded the outlook. The Cleveland District noted some easing in auto credit restrictions, and New York said both retail and wholesale auto credit conditions were good.

Tourism activity remained solid in most Districts, although poor weather affected growth in some areas. Travel activity was reported as robust in the Atlanta District, especially for airport traffic in South Florida. Tourism in the New York City area was also very strong prior to Hurricane Irene, and city theaters planned to re-open the Monday morning after the hurricane. Both business and leisure travel posted further improvement in the San Francisco District, and tourism activity was solid overall in the Minneapolis District despite heavy rains in Montana. By contrast, tourism activity slowed in July in the Boston District, leading hotels to increase promotional offerings, and the Long Island and Jersey Shore areas of the New York District as well as coastal areas of the Richmond District were heavily affected by hurricane evacuations in late August. Hotels in several Districts were raising room rates, although the Kansas City District noted some easing.

Nonfinancial Services

Nonfinancial services activity edged higher in most Districts, although Minneapolis and Dallas characterized growth as flat or steady, and New York said conditions deteriorated. Richmond, St. Louis, and San Francisco reported generally solid demand for health-care services, although Richmond noted lower occupancies at senior care facilities due to difficulties among potential residents in selling their homes. Software and information technology firms in the Boston District reported mixed activity since July but expected to return to previous strong growth patterns by late 2011. The San Francisco District reported expanded sales for technology service providers due to heightened demand for software, e-books, and mobile applications. In contrast, an information technology contact in the Minneapolis District noted a decline in sales as a result of reduced demand from the government and financial services sectors.

In transportation services, Cleveland, Atlanta, and Dallas reported mostly positive conditions, while activity was flat in the San Francisco District and below expectations in the Kansas City District. Railroad shipments rose slightly in the Dallas District, with particularly strong volume growth in metallic ores, petroleum products, and non-commercial building products. Cleveland noted an acceleration in capital spending, mainly to replace aging equipment and support demand growth from energy customers. Trucking firms in the Cleveland, Atlanta, and Kansas City Districts reported a shortage of qualified drivers, and a few firms noted concerns about higher fuel costs. Many services contacts expressed substantial uncertainty about future business activity, with a few Districts reporting weakened outlooks for transportation.

Manufacturing

Manufacturing conditions were mixed across the country, but the pace of activity slowed in many Districts. The New York, Philadelphia, and Richmond Districts reported declining activity overall, and contacts in the Boston and Dallas Districts noted slowing demand from European customers. Cleveland said factory production was stable, and manufacturing activity in the Atlanta and Chicago Districts grew at a slower pace. Minneapolis, Kansas City, and San Francisco reported slight expansions, and St. Louis said activity continued to increase and that several manufacturers planned to open plants and expand operations in the near future. Most manufacturing contacts were less optimistic than in the previous survey; however, future capital spending plans were solid in a few Districts.

Looking across factory sectors, auto production decreased in the Cleveland District due to normal seasonal retooling for model changeovers, and the Chicago District said auto production leveled off in August after a strong July. Textile manufacturers in the Richmond District said markets have grown weaker due to declining consumer confidence. Construction-related manufacturing was characterized as weak in the Dallas and Philadelphia Districts, and Boston noted a cyclical decline in semiconductor demand. Philadelphia reported a decline in food manufacturing, and the Kansas City District noted weakness at nondurable goods plants. In contrast, commercial aircraft manufacturers in the San Francisco District reported solid production rates due to new orders for narrow-body aircraft and a growing order backlog. A metal fabricator in the Minneapolis District announced plans to expand a facility in northwestern Montana. Capacity utilization in the steel industry remained at record high levels in the Chicago District, and a tire manufacturer in the Atlanta District noted particular pressure in meeting a recent surge in new orders due to supply chain normalization after the Japan disaster.

Real Estate and Construction

Residential real estate activity remained weak overall, although a few Districts noted some slight improvements. Contacts in the Boston, Atlanta, Minneapolis, and Dallas Districts reported an increase in home sales over the previous year's weak levels; however, the uptick in the Atlanta District was concentrated mainly in Florida. The remaining Districts all reported stable or slower sales from the previous survey period, with several citing greater economic uncertainty as the primary cause. Both the New York and Philadelphia Districts reported that a growing backlog of foreclosures in New Jersey continued to weigh down the housing market. Home construction was down or stagnant in most Districts, with the exception of Minneapolis and Kansas City. However, several Districts indicated an improvement in home remodeling activity, and the New York, Philadelphia, and Cleveland Districts reported increased demand for multi-family housing projects. Home prices were flat to slightly down in several Districts, although New York said prices in many areas edged higher but remained below year-ago levels. Contacts in the Boston District reported competitive pricing by sellers with even lower prices negotiated by buyers, but in the Cleveland District many builders have shifted away from discounting. Inventories were elevated or rising in the Boston, Atlanta, and Kansas City Districts, particularly for existing homes, and demand for apartment rental space increased in the San Francisco and Dallas Districts.

Commercial real estate conditions remained weak or little changed in most Districts, although some improvements were noted by New York, Minneapolis, and Dallas. Commercial real estate activity was sluggish in the Boston, Cleveland, Richmond, Atlanta, Kansas City, and San Francisco Districts. However, San Francisco noted some areas have benefited from technology sector growth, and Boston noted investor demand for prime office buildings remained strong. New York said office vacancy rates declined noticeably in the Buffalo and Rochester metro areas and modestly in Manhattan and Long Island. Lower commercial rents helped push down vacancy rates in the Kansas City District, and the Dallas District noted strong demand for leased space in Houston due to solid energy activity. Commercial construction was characterized as weak or limited by Cleveland, Atlanta, Chicago, and Kansas City, although Atlanta noted some strength in the healthcare sector. St. Louis described conditions as mixed, with some improvement in education and energy-related construction, while Minneapolis District contacts reported an increase in small retrofitting projects and rebuilding in flood-damaged areas. The Chicago District noted continued strength in industrial construction, particularly in the automotive sector. Credit for commercial development remained an obstacle for small retailers in the Richmond District, although Boston said aggressive competition among lenders led to reduced borrowing rates.

Banking and Finance

Most districts cited overall loan demand as stable to slightly weaker, with the exception of St. Louis, which reported a modest increase. Demand for business loans remained unchanged or weakened in the New York, Chicago, Kansas City, and San Francisco Districts, but was moderately stronger in the Philadelphia, Cleveland, and St. Louis Districts. Demand for consumer loans increased somewhat in the St. Louis District, but was unchanged to slightly weaker in the New York, Kansas City, and San Francisco Districts. While Kansas City reported a decline in commercial real estate loans, St. Louis cited a modest increase. New York and Cleveland noted increased demand for residential mortgages.

Most Districts said that loan quality was generally improving and that credit standards were largely unchanged. Cleveland reported a decline in delinquencies across all loan categories, and Richmond and Kansas City also indicated a continued strengthening in loan quality. However, New York indicated that delinquency rates increased on most categories of loans and that banks tightened standards for commercial mortgages and commercial and industrial loans. Banking contacts in several Districts also referenced concerns about the economy. The Chicago District cited recent volatility in financial markets and reduced expectations for economic growth, while Kansas City District contacts listed a weak economic recovery and uncertainty about financial regulations.

Agriculture and Natural Resources

Harsh summer weather strained agricultural activity in many Districts since the last survey period. Hot, dry weather stressed crops and livestock in the Chicago, St. Louis, Kansas City, and Dallas Districts, with poor pasture conditions hastening herd liquidations in the Kansas City and Dallas Districts. Recent rains provided some relief to agricultural producers in the Richmond and Atlanta Districts, but Hurricane Irene caused extensive damage to field crops not yet harvested in North Carolina. Shrinking production estimates pushed up crop prices and the Chicago District noted that robust ethanol production was also driving corn prices higher. Crop and livestock sales rose in the San Francisco District, and the Dallas District reported strong beef exports. Farmland values rose further in the Chicago and Kansas City Districts, but rising input costs trimmed farm capital spending in the Kansas City District.

Energy activity generally expanded since the last survey period, with additional gains expected in coming months. The Minneapolis, Kansas City, and Dallas Districts reported an increase in land-based oil drilling activity, and the Atlanta and Dallas Districts reported a modest rise in off-shore drilling operations in the Gulf of Mexico. Natural gas exploration rose in the Cleveland District, and remained steady in the Kansas City and San Francisco Districts.

Additional capital investments in oil and gas production were expected in the Cleveland, Atlanta, and Kansas City Districts. Energy contacts in the Cleveland and Kansas City Districts noted some new hiring, although permit delays and environmental compliance could constrain expansion. Coal production rose in the Kansas City District, held steady in the Cleveland District, and fell in the St. Louis District. Higher metals prices spurred mining activity in the Minneapolis and San Francisco Districts, especially for iron ore.

Employment, Wages, and Prices

Labor markets were generally steady, although some Districts reported modest employment growth. Several Districts reported a shortage of skilled workers such as engineers, mechanics, and software developers. Jobs in the health care industry continued to increase, and the Cleveland, Minneapolis, Kansas City, and Dallas Districts indicated growth in energy-related employment. Many Districts reported an increase in auto sales and service technician positions, and several companies in the Minneapolis District announced new manufacturing jobs. The Atlanta District noted that many contacts were focused on productivity and efficiency increases with existing staff, and Richmond said one firm would rather pay overtime than hire new workers. A large staffing firm in Chicago reported a decline in billable hours for staffing and professional services as well as fewer permanent placements, while Boston said demand for permanent and temporary-to-permanent hiring continued to grow. A major New York City employment agency reported unusually slow hiring activity in August but remained cautiously optimistic about future recruitment. Most Districts reported that wage pressures were minimal, but contacts noted some wage gains for several skilled positions as a result of heightened demand.

The majority of Districts reported fewer price pressures, but input costs continued to rise in select industries. The New York, Philadelphia, Cleveland, and San Francisco Districts noted some stabilization or decline in raw materials prices but Chicago said elevated commodity prices continued to put pressure on costs, particularly copper and steel. Manufacturers in the Boston District were able to pass through input price increases with little resistance, although a semiconductor firm was one exception. The Kansas City District reported construction materials prices as steady, excluding prices of petroleum-based products such as roofing shingles and asphalt, which continued to rise. Retail prices were steady or rising slightly in New York, Richmond, and Atlanta, although some Atlanta District retailers mentioned that weak sales could prompt them to lower prices. Retailers in the Dallas District noted a slight decline in overall prices, although increases were observed in certain high-end goods and cotton-based products. Prices for cotton-based products, such as clothing, also increased in the San Francisco and Cleveland Districts. Food prices climbed higher in the Cleveland and Chicago Districts, and restaurants in the Kansas City District expected further increases in menu prices as a result of rising food costs.

FIRST DISTRICT – BOSTON

Business contacts in the First District continue to report mixed results. Some manufacturers cite slowing demand while others continue to enjoy strong sales, retail activity is mostly flat, tourism is up, staffing and software and IT services firms note continued growth, and real estate markets remain sluggish. Respondents say input cost pressures have eased somewhat since the last report. Firms are doing little hiring. Contacts in all sectors note that the outlook is increasingly uncertain.

Retail and Tourism

Year to date through early August, contacted First District retailers report generally flat sales compared to a year earlier. Reports range from down 5 percent to up almost 4 percent. Consumers are conservative in the purchases they are making and, in particular, are avoiding big-ticket items. Sales of furniture and office supplies have been sluggish, while apparel and home improvement categories have performed a bit better. One contact saw a pronounced downward sales trend in recent weeks that he attributes to consumer concerns about the debt ceiling debate, stock market gyrations, ongoing high unemployment, and continuing unease about the U.S. economy's medium-term prospects. Some contacts are hiring, but most are cautious about adding to head count and one may have layoffs after the holidays. Retailers say that commodity price increases have moderated. Inventory levels are being positioned for an uncertain economic environment. All respondents voice concern that the economic outlook is sluggish for the foreseeable future; they are scaling back capital spending plans for 2012.

Travel and tourism in the region continued a strong upward trend through the second quarter that began a year earlier; as of June 2011 year-to-date activity in the hotel and visitor sector was up 7 percent from 2010. However, since mid-July, activity has softened and slowed, leading to an increase in promotional offers to shore up hotel bookings. The tourism industry has scaled back its 2011 forecast and now thinks that a 5 percent increase would represent a great year. The revised forecast reflects both lower consumer confidence and potential reductions in business travel based on an uncertain economic outlook for the next six months.

Manufacturing and Related Services

Manufacturing contacts report relatively mixed business conditions, especially compared to the widespread favorable reports earlier this year. Some firms cite flatter and/or slower revenue growth in the current quarter compared to the first half of the year, while others say sales growth continues to be relatively robust. Semiconductor-related manufacturers in particular note declines in demand, although they attribute it to standard demand cycles for their products, given the surge in purchasing they saw in late 2010 and early 2011. A diversified manufacturer and a company in the aerospace industry also report somewhat softening demand, which they attribute to a possible end to the post-recession sales bounce-back as well as increased economic uncertainty making some customers less willing to stockpile inventory. A number of firms also note a slowdown in European demand for their products. By contrast, sales growth at pharmaceutical companies remains steady, and demand at various industrial supply manufacturers continues to be strong. Contacts at these industrial products firms note that they have little lead time between orders and sales and thus they would know very quickly if demand were slowing. Despite continued favorable conditions at some companies, nearly all manufacturing contacts voice concern regarding the current state of economic uncertainty and more than one commented that the country is "talking itself into a recession." Some respondents continue to postpone hiring and/or investment to keep costs low while others report having contingency plans in place should demand turn down noticeably.

Employment remains steady at the vast majority of contacted manufacturers. One exception is an industrial products manufacturer with headcount up 9 percent year-to-date who plans to continue to hire as long as demand for their products remains strong. By contrast, a semiconductor firm has eliminated some of its temporary workforce because demand for its products is off. A small number of manufacturers report continued difficulty finding workers for highly skilled positions.

Fewer manufacturers report input price pressures and/or supply shortages than in recent rounds, although the costs of rare earth metals continue to pose input price pressure for some firms. One firm notes that anticipated supply disruptions from the earthquake in Japan never materialized. Most manufacturers reporting higher raw material costs continue to be able to pass the price increases on to their customers with little resistance. A semiconductor firm, however, notes that economic conditions limit its ability to pass along cost increases. Healthcare costs continue to be a concern for contacted manufacturers, although nearly all report providing merit pay increases to their employees this year.

Responding manufacturers say capital spending remains more or less on plan, with the majority of capital spending increases relative to last year going to construction and/or updating of facilities. Most contacted firms report having excellent cash positions and being willing to invest should a good opportunity arise. Uncertainty surrounding the economic climate, however, continues to limit their willingness to invest and hire; they are waiting to see what happens with the economy before noticeably changing their current operating strategy.

Software and Information Technology Services

New England software and information technology contacts report that the upward trends of 2010 and early 2011 continued through the end of the second quarter. Year-over-year revenue increases, ranging from 4 percent to 30 percent, were driven by notable increases in both software license sales and recurring service revenues. Reports on activity since July are mixed, however, with some contacts experiencing downticks and others posting larger-than-expected increases. Headcounts continue to rise in line with revenue growth, although many contacts report increasing difficulty in finding qualified software engineers, programmers, and sales personnel. As a result, some have bolstered their recruitment efforts and one contact has added jobs overseas. Wages are steady or up slightly, with annual merit increases generally in the 3 percent to 5 percent range. Selling prices have been left unchanged as a result of a competitive market environment. The outlook among New England software and IT services respondents is not appreciably different from that of 3 months ago, with most expecting growth in late 2011 and early 2012 to be in the 10 percent to 20 percent range.

Staffing Services

Nearly all New England staffing contacts report upticks in business volume through the end of second quarter and into the third; however, many respondents lament that overall activity remains below expectations. Revenues are flat to increasing year-over-year, with increases in the range of 5 percent to 25 percent. Labor demand continues to strengthen, albeit modestly, with notable improvements in the manufacturing and information technology sectors. Demand for permanent and temporary-to-permanent hiring continues to grow; indeed, two contacts report that permanent placements are up more than 20 percent relative to last year. Notwithstanding stronger demand, jobs remain difficult to fill as clients remain fastidious in their candidate expectations. One contact notes that jobs that used to take just a few days to fill continue to take weeks. Supply of high-end labor remains tight in the region, but there has been no significant change since May. Bill rates and pay rates are steady. Looking forward, New England staffing contacts are generally less upbeat than they were three and six months ago, with many expecting to “move sideways” into 2012.

Commercial Real Estate

Commercial leasing fundamentals are roughly unchanged since the last report. Office leasing activity was stable in Boston but resulted in no significant absorption or changes in rental rates. In Hartford, the modest momentum observed in the first half stalled as sentiment turned negative, and the risk of a significant slowdown in leasing and sales activity in the fourth quarter is considered high. Investor demand for prime office and apartment buildings in Greater Boston remains strong, raising concern among some contacts that sales prices are moving too high relative to rents and occupancy. The lending environment for commercial real estate in Boston is characterized by aggressive competition among banks, resulting in downward pressure on mortgage rates. Looking forward, relatively weak office-leasing demand in Boston is expected to persist in light of recently-announced layoffs at a few large downtown employers.

Residential Real Estate

States throughout New England experienced increases in home sales in July compared to last year; however, contacts express little enthusiasm about these increases because they largely reflect struggling sales activity following the expiration of the homebuyers’ tax credit last year rather than any improvement in activity this year. Respondents report that activity in the housing market remains sluggish, with potential buyers remaining apprehensive about economic conditions. The median sale price of single-family homes and condos remained close to even with a year ago throughout much of the region. Contacts report sellers pricing competitively in order to attract bids and buyers negotiating even lower prices. Meanwhile, listings continue to climb in the region, but most contacts did not express serious concern about the level of inventory reached.

Outlooks for the remainder of the year appear largely pessimistic, with contacts expecting a continuation of slow activity. Most anticipate sales for this year will not reach last year’s total and forecast little improvement over the next one to two years.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has remained sluggish since the last report. While it is too early to assess the full effects of Hurricane Irene, initial reports suggest widespread disruptions and local pockets of more extreme stress from flooding and power outages. Transportation and other infrastructure apparently sustained limited damage. Prior to the hurricane, business contacts in the manufacturing sector noted steady to weakening activity. Retail sales were reported to be up modestly from a year ago in recent weeks, while tourism activity has remained strong. Commercial real estate markets have shown some signs of improvement since the last report: both office and industrial markets have been steady to slightly stronger. The residential purchase market has been stable, while the rental market has continued to strengthen; new home construction remains very sluggish. Finally, bankers report reduced demand for consumer and commercial & industrial loans, widespread increases in household delinquency rates, and some tightening in credit standards for commercial & industrial loans and commercial mortgages.

Consumer Spending

Non-auto retail sales continued to run close to or slightly ahead of plan in July, with same-store sales on par with or slightly ahead of a year earlier. Most retailers indicate modest slowing in the first three weeks of August, although one major mall in western New York State notes some firming in sales activity in August, following a sluggish July. Widespread disruptions from Hurricane Irene across much of the District are likely to adversely affect sales tallies for the full month, but replacement of consumers' water-damaged property is expected to boost sales in September. Retail prices are reported to be mostly stable, though some retailers are implementing moderate increases on prices of cotton-based merchandise to counter sharply rising costs. Inventories are generally reported to be in good shape.

Auto dealers in upstate New York report that sales weakened in July and were mixed in early August. Rochester-area dealers note continued weakness in new vehicle sales in recent weeks, which have been running somewhat below 2010 levels, reflecting continued Japan-related supply disruptions and a lack of incentives. However, dealers in the Buffalo area report some firming in sales activity in early August, following a sluggish July. Auto dealers in both areas indicate that used car sales remain strong and that used car prices continue to be buoyed by strong demand and lean inventories. Auto-industry contacts note that both retail and wholesale credit conditions are good.

Consumer confidence remains mired at low levels. Siena College reports that consumer confidence among New York State residents slipped to a 10-month low in July, with declines in both upstate and the New York City area. The Conference Board indicates that consumer confidence among residents of the Middle Atlantic states (NY, NJ, PA) was little changed in July and was near the middle of its range over the past year. Tourism activity in New York City remained robust in July and early August. Manhattan hotels report that total revenue per room was running 7 to 8 percent ahead of a year ago in July and appeared to be up roughly 10 percent in August (prior to the hurricane). Most of the increase has come from rising room rates, as occupancy rates have been holding relatively steady at high levels. Broadway theaters also report sturdy gains in both attendance and revenues since the last report, despite a mid-July lull. Theaters closed for most of the final weekend in August because of Hurricane Irene, but were due to reopen the following Monday. Businesses in the popular vacation areas along the Long Island and New Jersey shores were widely affected by hurricane-related evacuations.

Construction and Real Estate

Residential construction and home sales have remained sluggish but generally steady since the last report, while there has been further improvement in the rental market. Overall, prices of existing homes have edged up in recent months in many areas but are still down slightly from a year ago across most of the region. Buffalo-area Realtors report that market conditions remained weak in July and early August, with the median selling price little changed from a year earlier, but that a recent increase in pending sales suggests some recent firming in market conditions. An authority on New Jersey's housing industry reports that a large overhang of distressed properties continues to weigh down the market but that the processing of foreclosures is now resuming; this is expected to lower reported transaction prices, on average, but increase sales activity and gradually reduce the inventory. New construction activity is very low and largely concentrated in the multi-family (rental) segment. A major appraisal firm reports a more-than-typical seasonal drop-off in activity in New York City's co-op and condo market in August; some of the recent softness is deemed to reflect concern about the city's financial sector. Still, the markets in Manhattan and nearby Brooklyn are reported to be holding up relatively well, buoyed, in part, by foreign buyers paying cash. New York City's rental market has shown continued strength: the inventory of available units is down moderately, and rents on new leases continue to climb and are up 5 to 8 percent over the past year.

Commercial real estate markets have improved modestly since the last report. Office markets were steady to somewhat stronger in July and the first half of August, as vacancy rates declined noticeably in the Buffalo and Rochester metro areas and modestly in Manhattan and on Long Island. However, vacancies continued to edge up in northern New Jersey, and Westchester and Fairfield counties. Industrial vacancy rates edged down in most areas, while asking rents were little changed. Northern New Jersey's industrial vacancy rate reached its lowest level in two years; small declines were reported on Long Island and in Westchester and Fairfield counties.

Other Business Activity

Reports from business contacts point to some weakening in general business activity and steady to weakening conditions in the labor market. A major New York City employment agency reports that hiring activity has been unusually slow in August but remains cautiously optimistic that recruitment will pick up after Labor Day; financial firms, in particular, have become more hesitant and even hiring for compliance jobs has slowed. Separately, a contact in the securities industry reports that widespread layoffs are planned across the industry (though not entirely in New York City) and not all the weakness is related to the current market turmoil. There continues to be some hiring in compliance and technology, but layoffs now exceed hiring, on net.

More broadly, non-manufacturing business contacts across the District report that business conditions have deteriorated in recent weeks and indicate waning optimism about the near-term business outlook. They continue to report steady to rising employment levels, with a majority expecting employment to level off in the months ahead. Non-manufacturing firms report that cost pressures remain fairly widespread, though somewhat less so than in recent months; further increases in input costs are expected in the months ahead. Selling prices, however, remain steady.

Manufacturing firms in the District report that business activity weakened moderately in July and early August and that price pressures have continued to recede, based on the latest Empire State Manufacturing Survey. Contacts report steady employment levels, and expect this to continue over the next six months. Overall, though, manufacturers are now less optimistic about the near term outlook than they have been in quite some time.

Financial Developments

Bankers indicate weakening demand for consumer loans and commercial & industrial loans, but an increase in the demand for residential mortgages, as well as for refinancing. Bankers report tightening their standards for commercial mortgages and commercial & industrial loans but no change in credit standards for consumer loans and residential mortgages. Respondents report a decrease in spreads of loan rates over costs of funds for all loan categories—most notably commercial mortgages. Respondents also indicated a decrease in the average deposit rate. Finally, bankers report increased delinquency rates on all categories of loans except commercial & industrial loans. The increase in delinquency was most widespread for consumer loans where 41 percent of respondents indicated increases in delinquency rates and only 7 percent indicated decreases.

THIRD DISTRICT – PHILADELPHIA

Since the last Beige Book, business activity in the Third District has been more mixed and somewhat weaker overall. Several sectors have continued to report slow, steady growth, and a few sectors have grown faster, while others have shifted to reporting slower growth, no growth, or declines. Manufacturing activity has declined since the last Beige Book. Year-over-year sales fell slightly for general retailers and increased slightly for auto dealers. On balance, bank lending has remained mostly flat. Residential real estate and construction was perhaps most impacted by stock market volatility – showing signs of strength at July's end, then slowing to an unseasonably quiet August. Commercial real estate contacts have reported steady to slightly improved market conditions in most parts of the Third District since the previous Beige Book. Generally positive results were reported by service-sector firms. Upward price pressures from food, energy, and other commodities have lessened somewhat. The ability to pass along costs remains mixed, and there is little evidence of wage pressure.

In response to ongoing uncertainty, Third District business contacts have slightly lowered their expectations, with most firms projecting slow to flat growth for the remainder of the year. Manufacturers forecast a small rise in shipments and orders during the next six months. Retailers are hopeful for stronger sales; auto dealers are uncertain. Bankers have lowered their expectations, as have most residential real estate contacts. Commercial real estate contacts and service-sector firms have continued to expect slow growth; however, uncertainty has increased.

Manufacturing. Since the last Beige Book, the percent of Third District manufacturers reporting decreases in new orders and shipments has risen substantially, while the percent reporting increases has fallen slightly. The general decline in activity was not uniform across sectors. The makers of food products, fabricated metals, and electronic equipment reported declining product demand. However, growing product demand was reported by printers and publishers, by makers of instruments, and by lumber and wood products manufacturers. Shipments increased, but orders fell for firms reporting in the primary metals and industrial machinery sectors. Firms experiencing growth cited foreign markets, growing market share, and product shifts as positive factors. Declining demand was attributed to sluggish residential construction, softening domestic consumption, and the falloff in public infrastructure spending.

One industrial supply firm indicated steady growth overall but noted some softness in sales to those manufacturers most sensitive to business cycles.

Although the outlook among Third District manufacturers remains somewhat optimistic, it is not as promising as was reported in the last Beige Book. Among firms contacted, two-fifths expect increases in new orders and shipments over the next six months, while one-fourth expect decreases. About one-fourth of the firms polled project increases in capital spending over a six-month planning horizon – a slightly lower proportion than in the last Beige Book.

Retail. Third District retailers reported that sales were generally flat to down compared with a year earlier, although results were more varied among individual stores across the District. Heavy promotions and markdowns have been deployed to counter what one retail manager described as "not a great August." Retailers are looking forward to the extended holiday shopping season with hopeful optimism.

Auto dealers in the Third District continue to report some supply disruptions for Japanese-related vehicles and parts, leading to softer sales in July. Early reports for August were a little better than July, and better than last year. However, one dealer reported a customer backing out of a luxury car sale amidst the early August market volatility. Continued tight supply favors dealers with higher pricing and fewer promotions. Uncertainty clouds dealers' outlooks.

Finance. Third District banks contacted in August indicated soft loan demand, although some bank contacts cited strengths in small business lending, and in lending to development projects for apartment rentals, hotels, and commercial retail. More generally, commercial and industrial loan volumes grew, while consumer and commercial real estate loan volumes shrank. On balance, total credit extended by banks in the Third District has been generally flat since the last Beige Book. Most banks report improving credit quality, while credit standards have changed little. Bank contacts report lowering their expectations for the remainder of the year – anticipating little growth for all of 2011.

Real Estate and Construction. Residential real estate activity in the Third District has slowed slightly since the previous Beige Book. Agents reported little traffic and have revised their plans downward for the remainder of the year. A backlog of foreclosures, the volume of which was especially large in New Jersey, and flat to slightly falling house prices continue to dampen demand for new and used homes. Some builders reported signs of strengthening from mid-July to August, then as financial market volatility increased, a few deals unwound and traffic ground to a halt. “You could hear the crickets for two weeks,” said one builder, reflecting on the anemic growth even for a typically slow August. An uptick in refinances was reported; however, little of the resulting consumer savings is expected to impact housing.

Commercial and industrial real estate contacts have offered mixed reports in the Third District since the previous Beige Book. Few reported any interruption in the normally slow August activity due to financial market volatility. Slow, steady growth was observed with vacancy rates generally falling, rents steady or occasionally rising, and concessions steady or occasionally falling. Demand for residential rental properties has been generating the most new business as reported by architecture, engineering, and property management firms. Several contacts also noted activity finally re-emerging from the life sciences sector. The outlook expressed by market participants is for continued slow growth in nonresidential real estate.

Services. Reports from Third District service-sector firms remain generally positive, but with greater expressions of uncertainty. A logistics firm described business as surprisingly strong – improving since the last Beige Book and better than last year. Staffing firms noted an increase in temporary hiring to fill permanent positions – indicating increased uncertainty among their customers. In addition to the impact from anticipated troop reductions, defense-related firms noted concerns stemming from the debt-ceiling agreement. While growth remains generally steady, greater uncertainty has crept into the generally positive outlook of service-sector firms.

Prices and Wages. Since the previous Beige Book, the percent of manufacturers reporting increases in prices paid for inputs has continued to fall slightly from one-third to one-fourth. Over the same period, the percent reporting decreases in prices received for their own products rose slightly from one-sixth to over one-fifth. Since the last Beige Book, commodity price pressures have lessened somewhat on retailers, service-sector firms, and builders; however, margins remain very tight. But for a few business sectors or a few scattered rental markets, there are scant reports of upward pressure on rents and wages.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a slow pace during the past six weeks, with many of our contacts downgrading their near-term outlooks. Manufacturers reported stable production but a decline in new orders and backlogs. Freight transport volume trended slightly higher. Retailers said that their sales were on or ahead of plan and new-car purchases increased. Energy companies noted little change in output. New-home construction remains sluggish, and inquiries made to nonresidential builders have dropped off. The demand for business credit picked up, while consumer lending was weak.

Modest increases in 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 technical occupations and healthcare. Almost all openings were for experienced workers. Wage pressures are contained. Prices for raw materials used by manufacturers and construction materials have generally stabilized or declined slightly.

Manufacturing. Production at District factories was stable during the past six weeks, although reports indicated declines in new orders and backlogs. Many of our contacts expect additional slowing in demand, which they attributed to uncertainty and caution on the part of their customers. Almost all steel producers and service centers reported that the weakening in shipping volume that began during the second quarter has continued. However, some of our contacts are looking for a pickup in new orders due to low supply chain inventories. Steel shipments are being driven primarily by transportation- and energy-related industries. District auto production decreased in July on a month-over-month basis, due to normal seasonal retooling for model changeovers. Year-over-year production also fell, but declines were limited to foreign nameplates, as supply disruptions caused by events in Japan persist.

Manufacturers remain committed to their capital spending plans for 2011, with half of our contacts expecting to increase outlays in the upcoming months relative to prior-year levels. Little movement was seen in capacity utilization rates. Reports on raw materials indicated that prices have stabilized or declined slightly. Product pricing was fairly steady. Several of our respondents expect steel prices to begin rising in the near future. Hiring continued at a modest pace, with some manufacturers reporting difficulty in finding high-skilled workers. Wage pressures are contained.

Construction. Single-family home construction remains at a low level, with purchases mainly in the move-up buyer categories. Contractors reported that a lack of confidence is keeping potential buyers on the side-lines, even with mortgage interest rates at very low levels. A few of our contacts noted that multi-family construction and remodeling now accounts for a substantial part of their backlogs. Expectations call for little change in residential building in the near term. List prices of new homes held steady, while builders shifted away from discounting.

The upward pressure on building material prices that was seen in early summer has diminished. Two builders reported some easing in credit restrictions for financing multi-family and spec construction. Aggressive pricing on the part of subcontractors was widespread. One contact reported that monies from the 2009 stimulus package earmarked for home weatherization programs have been exhausted, which could lead to further job cutbacks in residential construction. General contractors continue to work with lean crews.

Activity in nonresidential construction has weakened slightly since our last report. Although the number of inquiries has dropped off, several builders noted that they have recently added to their backlogs. One contractor reported that the rising incidence of stop-work orders on federal projects is contributing to marketplace uncertainty. Most construction was contracted with manufacturers, energy producers, or for infrastructure projects. Looking forward, several of our contacts remain cautiously optimistic, while others believe an industry rebound will not occur until 2013. Building material prices were mainly steady. Little change in construction payrolls was noted, while union negotiations led to a small increase in wages. Accounts of subcontractors struggling to stay in business were common.

Consumer Spending. Retailers reported that sales for the period from early July through mid-August were on or ahead of plan, and that transactions increased in single-digits relative to year-ago levels. Many of our contacts said that rising sales included necessities and discretionary items, especially for new and innovative products. Looking ahead to the fourth quarter, most contacts expect their sales to rise in the low- to mid-single digits on a year-over-year basis. However, grocers we spoke with anticipate little improvement in sales volume for the remainder of this year. We continue to hear about upward pressure on supplier prices, although it mainly affects meat and dairy products and items produced from cotton. Retailers attributed some of the pressure to higher costs for transportation, packaging, and certain commodities. Grocers passed through the increases to their customers, while other retailers were more selective in adjusting prices. Reports on profit margins were mixed. Capital outlays remain on plan. Half of our contacts said that they are in the process of expanding 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 early July through mid-August were higher than the previous six-week period. On a year-over-year basis, vehicle purchases improved for almost all of our contacts, with a few noting double-digit increases. Demand for fuel-efficient, less-expensive cars continued to grow, although the market for smaller SUVs remains stable. Inventories are still at low levels, especially for Japanese brands. Dealers are cautious in their outlook due to uncertainty about the economy and the availability of vehicles that consumers want to buy. Demand for used cars remained fairly strong; however, scarce inventory is contributing to higher prices. We heard a few reports of some easing in credit restrictions, while the use of leasing continues to grow. Many dealers are in the process of initiating factory-mandated programs for showroom upgrades and reimaging, and two contacts said that they are expanding their current facilities. The number of dealers who are hiring sales and service personnel has picked up slightly since our last report.

Banking. Overall demand for business loans showed a modest improvement, with requests coming from a broad range of industries. Reports indicated downward pressure on interest rates for business credit. Consumer credit was driven by indirect auto lending and home equity lines of credit. Other installment loan categories remained weak. Applications for residential mortgages have picked up, with bankers citing falling interest rates as the reason. Submissions were fairly mixed but leaned toward refinancing. Core deposits continued to increase, driven by inflows from business customers. Several bankers commented that the rate of growth in consumer deposits has weakened. Credit standards were largely unchanged. Delinquencies declined across all loan categories. No significant changes in employment levels were cited, and little new hiring is expected in the near-term.

Energy. Conventional oil and natural gas drilling and production were stable during the past six weeks, while activity in Marcellus and Utica shales continued to expand. Shale gas produced in Pennsylvania grew by almost 60 percent in the first six months of 2011 relative to the prior six-month period. Wellhead prices paid to independent producers declined slightly. Little change in coal output is anticipated for the remainder of this year. Rising demand for coal in overseas markets has been offset by a lessening in demand from domestic utilities and production constraints due to increased governmental oversight in permitting and environmental compliance. Spot prices for coal increased between 1 percent and 3 percent. Capital outlays are on target, with moderate increases projected by oil and gas companies in the upcoming months for drilling new wells. The cost of production equipment and materials was fairly stable; however, prices increased for tubular products and tires. A modest rise in payrolls was reported.

Transportation. Overall, freight transport volume continued on a slight upward trend, although a few of our contacts characterized volume over the past couple of months as inconsistent. As a result, they revised their near-term growth projections down slightly. Several respondents have successfully increased their shipping rates as customer contracts came up for renewal. Prices for diesel fuel have been trending lower, while maintenance costs are rising, especially for tires. Capital outlays have accelerated during 2011 relative to prior-year levels. Spending is mainly to replace aging transport equipment and to support demand growth from energy customers. Hiring has been largely for driver replacement; however, we heard two reports about carriers adding capacity. Wage pressures are emerging due to a tightening of the driver pool.

FIFTH DISTRICT–RICHMOND

Overview. Economic activity in the Fifth District slowed since our last report. Manufacturing activity pulled back markedly in August, following a sluggish July, and retail sales weakened. Residential construction and housing sales declined further, while commercial real estate activity was mixed. Banking activity was also mixed, with some commercial lenders citing some improvement but mortgage bankers reporting continued weakness. In contrast, activity at non-retail services firms edged up. After earlier improvements, coastal hoteliers watched their guests flee as Hurricane Irene approached. However, inland hotel managers reported no change in their solid bookings. Labor markets were mixed; while temp services reported some improvement, employment remained nearly flat at manufacturing establishments. Price pressures in the District edged higher over the last month. Manufacturing prices paid and received accelerated, while prices in the service sector picked up slightly. Finally, recent precipitation improved agricultural conditions in most parts of the District, although Hurricane Irene damaged coastal crops.

Manufacturing. District manufacturing activity contracted in August after stalling in July. A producer of modular homes stated that "business is terrible," citing this as the worst year in his 40 years in the business. Several textile manufacturers mentioned that markets for their products had grown considerably weaker since our last report, which they attributed in part to declining confidence among customers. Similarly, a producer of packaging film mentioned that his firm had cut production over the last three months. Moreover, a manufacturer of bottled and canned soft drinks noted sales were down sharply from last year, producing lower-than-normal sales for this time of year. Low-end cabinet makers reported that their firms continued to struggle with below-average profits. In contrast, high-end cabinet manufacturers affirmed that sales continued to improve, albeit at a slower rate than in the spring. The District manufacturing survey for August revealed that prices for both raw materials and finished goods grew at a somewhat quicker pace than a month ago.

Retail. Retail sales mostly weakened in late July through August. A wide range of retailers indicated that sales had declined in recent weeks as shoppers searched for bargains, while polled store managers at general merchandise stores mostly reported little change in revenues. A manager of a chain of hardware stores noted a decline in sales in recent months. Also, a contact told us that a Baltimore jeweler had little business over the last month other than engagement rings. A grocery executive reported higher revenues, while also indicating that his input prices had risen, putting pressure on margins. The pace of retail price increases stepped up from a month ago, according to our most recent survey.

Services. Non-retail services firms saw an uptick in revenues in recent weeks, according to most contacts. Stronger consumer demand for services was reported in telecommunications and healthcare, and a food distributor in the Baltimore area noted increased demand from locally owned restaurants and delicatessens. A financial data services firm reported improving demand from restaurants and retailers in

Maryland and Virginia, although other business services providers noted negative ripple effects from a slower economy. In contrast, an executive at a Virginia linen service stated that low bookings at hotels had reduced demand. Contacts at senior care facilities in Maryland and North Carolina remarked that expected new residents had postponed their move-in date while their homes remained on the market. Service sector prices grew at a slightly faster pace, according to our latest monthly survey.

Finance. Lending activity was mixed since our last assessment. A banker in North Carolina stated that loan volume was “pretty good” in recent months, but added that most of the activity was market share gains rather than a piece of a growing market. Indeed, several bankers noted an increase in calls from businesses that were looking for new banking relationships, but few were ready to make a loan application. An official at a large bank in the District noted some improvement in loans for capital spending, but added that most was limited to replacing worn out capital. A commercial banker in Richmond cited recent cutbacks in loan demand from several manufacturers. A banker in rural Virginia described his loan demand as “extremely flat,” with modest gains on the commercial side offset by weak demand on the consumer side. Several bankers noted weaker-than-expected mortgage demand over the last month. Most contacts stated that loan quality continued to improve, but several bankers indicated that they eased lending terms in order to compete for quality borrowers.

Real Estate. Real estate activity weakened over the last four to six weeks. Several Realtors reported that sales had dropped considerably in recent months and that their markets were less active than a year ago. A Realtor in eastern Maryland indicated that home sales as well as average home prices were down notably from earlier in the year. A West Virginia Realtor said potential buyers were calling and looking for bargains, but that there were few actual sales. He mentioned that some sellers were starting to reduce prices significantly. Similarly, an agent in central Virginia noted that asking prices continued to fall. Most Realtors said that the high-end market was suffering, which they attributed to devalued portfolios of the wealthy, as well as uncertainty about employment and job stability. In contrast, a Realtor in the D.C. area reported that properties in the $900 thousand to $1.5 million price range moved quickly over the last month. He added that low interest rates and lean inventory, which reached its lowest level since February 2006, should help improve area sales in the fall.

Commercial real estate activity since our last report was mixed across most segments of the market. Virtually all contacts described market conditions as remaining weak, in terms of both leasing volumes and rental rates. While a Realtor in South Carolina reported that activity had picked up over the last few months, gains were mostly due to consolidations and renewals that often occurred at reduced lease rates. A Realtor in North Carolina noted that leasing incentives were still being offered aggressively in local markets. An agent in the D.C. area said that renewals often required owners to offer significant improvement packages. In contrast, a real estate agent in West Virginia remarked that further softening of lease rates was constrained by the limited amount of vacant space in the area. Most retail leasing activity in the District was limited to national chains, according to several contacts, in part because financing remained an obstacle for small retailers. Contacts generally noted that greater uncertainty about the market and the economy had pushed clients to prefer leasing over buying. One contact stated that sales to leases had recently fallen from a typical one-to-four ratio to one-to-fifteen.

Labor Markets. Reports on Fifth District labor market activity were mixed in August. Several employment agencies reported somewhat stronger demand for temporary help in recent weeks, particularly in the healthcare and automotive industries. The branch manager of a temp agency in North Carolina stated that manufacturers had openings for skilled positions, but they had difficulty finding machine operators with at least one year of experience. Likewise, a contact from South Carolina reported that three large manufacturers in the area were trying to hire, but could not find qualified candidates. In contrast, an executive from the D.C. area said that a major corporation had initiated a hiring and advertising freeze. Also, a banker indicated that some of his clients said that they would rather pay workers overtime than hire new workers, due in large part to the recent environment of heightened uncertainty. According to our latest survey, job losses in the service sector were somewhat more widespread than in our last report; wages in the retail sector weakened on average, while average wage growth slowed at services firms. Survey respondents from most manufacturing industries indicated that hiring inched up over the last month, while the average workweek declined and wage growth slowed.

Tourism. Tourism generally strengthened over the last month, although contacts along the Atlantic coast lost significant end-of-summer business as Hurricane Irene came ashore one week before Labor Day weekend. Local evacuation orders in areas along the coast of North Carolina resulted in cancellations and shortened stays for the end of August. In addition, an hotelier in Virginia Beach reported several cancellations and early check-outs, as guests left the area ahead of the storm. Inland, however, hotel managers reported solid bookings, and several were experiencing a rush of hurricane evacuees. In the weeks prior to the hurricane, bookings had been strong, although some beach resorts used incentives to bolster reservations. According to a local contact, hotels in the D.C. area discounted room rates to boost reservations over the summer, which increased volume but held down margins.

Agriculture. Scattered precipitation over the last two months promoted crop growth in many sections of the District, but more recently crops along the coast were damaged by Hurricane Irene. Rain in early August aided late summer peaches in West Virginia and soybean harvests in Virginia. Virginia growers were also busy cutting hay and preparing for the corn harvest and the flue-tobacco harvest was in full swing. Ninety-six percent of the corn crop in South Carolina had matured and was forty percent harvested up to the hurricane. However, post-hurricane inspections by state officials in North Carolina revealed widespread damage to field crops, poultry and other agricultural businesses. Moreover, agricultural agents in that state reported damage to greenhouses, grain storage facilities and aquaculture operations. Fortunately, cotton bolls had not been stripped from their plants by high winds, and tobacco farmers may have been saved by rushing their crops to curing barns before the storm stuck, according to the agricultural agents.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts indicated that economic activity continued to expand at a very subdued pace in July and August. Retail sales grew more slowly than during the previous reporting period, although tourism activity remained solid. Existing home sales improved in Florida, but were weak elsewhere in the District. New home sales and construction were soft and downward pressure on prices persisted for both existing and new homes. Contractors reported low levels of commercial development. Manufacturing contacts indicated that the level of production and new orders increased, but at a slower pace than experienced earlier in the year. Bankers noted ongoing weakness in loan demand as both consumers and businesses were restrained in their borrowing activity. Most businesses continued to be cautious regarding adding permanent staff, with several indicating that they had chosen to hire temporary or contract workers to fill immediate labor needs. Contacts reported that on average, sales prices were up slightly from a year ago, although some retailers mentioned that weak sales were prompting them to lower prices. Energy contacts indicated plans to increase oil production capacity.

Consumer Spending and Tourism. Most District merchants reported that retail sales growth had slowed in July and August. Businesses noted a drop in sales and traffic compared with a year ago. The majority of contacts stated that they were keeping inventory levels lean and had no plans to increase supply in the near term. The outlook among most retailers was less optimistic than earlier in the year, although some contacts noted that the costs of cotton-based inputs for the spring selling season will not be as high as initially feared.

Tourism activity remained robust in the District. Hospitality industry reports cited increases in occupancy and room rates. Airport traffic was up, particularly in South Florida, which serves as a point of entry for cruise line travel as well as international travel from Latin America. Although some companies noted that the softer economic climate has led to a decline in advance bookings from business travelers, the overall outlook among contacts remained strong for the coming months.

Real Estate and Construction. The majority of District residential brokers reported that sales were slightly ahead of last year's weak levels. Most of the increase came from Florida contacts, although several brokers there stated that a decline in bank-owned homes available to purchase had held sales back somewhat. Outside Florida, brokers found that sales were similar to last year's levels. The majority of brokers indicated that housing inventories remained elevated. Brokers continued to note downward pressure on home prices with most indicating that prices were flat to slightly down compared with a year ago. The outlook weakened over the reporting period with most contacts anticipating sales growth to be down slightly over the next several months.

District builders reported that new home sales and construction activity were similar to year earlier levels. New home inventory levels declined somewhat, but builders noted downward pressure on new home prices nonetheless. Residential contractors indicated that home improvement construction improved from earlier in the year. Compared with the June report, builders' outlook weakened somewhat with the majority of contacts expecting new home sales growth to be flat over the next several months and construction to be similar to last year's weak levels.

Commercial contractors signaled that nonresidential construction was slow, although activity in the healthcare sector continued to be positive. Contacts reported aggressive bidding by contractors and subcontractors. On the leasing side, firms noted that the absorption of space had slowed somewhat in recent weeks. Overall, the outlook for construction and leasing activity weakened somewhat from previous months.

Manufacturing and Transportation. Manufacturers indicated that the level of new orders and production increased in mid-July and August, but at a slower pace than earlier this year. A leading auto dealer and many parts suppliers felt that the impact of supply disruptions from Japan had ended. A large tire manufacturer noted particular pressure in meeting a recent surge in orders as the supply chain normalized from the disaster in Japan. Many manufacturers reported increased investment in technology equipment in efforts to increase efficiency.

Railway firms cited increased capital expenditures, above-trend plans to hire, and strengthening exports – particularly coal. Trucking contacts expressed continued labor supply issues and elevated fuel costs, and have also projected demand for the remainder of the year to be somewhat softer than previously anticipated.

Banking and Finance. Bankers noted ongoing weakness in loan demand as both consumers and businesses were restrained in borrowing activity. Credit standards at banks and credit unions were little-changed and some firms, such as newer businesses or those related to real estate, reported difficulty obtaining loans. Contacts at large companies indicated they did not have many issues with credit availability. Many mentioned self-funding capital projects through the use of cash reserves or retained earnings. Some businesses signaled that they did not need additional credit, but had access to funds while others with financial issues struggled to get bank credit.

Employment and Prices. Most businesses reported muted hiring activity. Many held the view that sales are the key factor in determining labor demand, and uncertainty about future sales seems to be exacerbating firms' unwillingness to commit to full-time employees. Hence, companies continued to hire temporary workers and contractors and are delaying longer-term projects. Many noted focusing on efficiency and productivity increases with existing staff to meet current or any seasonal increase in demand. Wage increases were reportedly subdued, with many business contacts opting for cash bonuses and restoration of benefits over annual salary increases.

Pricing information was mixed. Contacts reported that on average, sales prices were up slightly from a year ago, although some retailers mentioned that weak sales were prompting them to lower prices. Fewer manufacturers reported higher input prices than in previous months. Firms noted that they continued to face cost pressures, particularly from high materials and freight costs.

Natural Resources and Agriculture. The number of oil and gas rigs operating in the Gulf of Mexico has continued its gradual ascent in recent months. However, the current rig count is only about two-thirds of the number of offshore rigs in operation before the spring 2010 Gulf oil spill. Despite the recent decline in oil prices, contacts in the energy equipment fabrication business reported ongoing backlogs in orders for pipelines, supply boats, and drilling equipment. Energy producers are moving forward with plans to invest in increased oil production capacity.

While most of the District continued to experience varying degrees of drought conditions, recent rains have provided relief to some of the region's stressed pastures and crops. Cotton prices were up compared with last year but have fallen from record highs. Peanut producers expect prices to increase as supply from areas outside of the District becomes constrained as a result of adverse weather.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District expanded more slowly in July and August. Contacts expressed concern about the economic outlook, noting lower business and consumer confidence. Both consumer and business spending were little changed over the reporting period. Manufacturing production expanded at a slower pace, while construction decreased. Credit conditions tightened moderately. There was further pass-through of elevated commodity prices to prices downstream. Expectations for the corn and soybean harvests were trimmed due to hot and dry weather in most of the District.

Consumer spending. Consumer spending was little changed on balance from the previous reporting period. Retailers reported the back-to-school shopping season got off to a strong start. Consumers responded more than expected to the increase in early back-to-school promotions on items such as apparel, and expanded their purchases even on non-back-to-school items. Spending on luxury goods also increased in July, but slowed noticeably in early August. Contacts noted that rising uncertainty about the economic outlook and stock market volatility had led to a decline in consumer confidence, pointing to lower customer traffic in August. Vehicle sales edged up in July before leveling off in August. A contact in the auto industry reported that many consumers were still waiting for Japanese products to become more readily available before making a purchase decision. Spending on other consumer durables like furniture and appliances remained weak.

Business spending. Business spending continued at a slow, but steady, pace in July and August. Some manufacturers reported proceeding as planned with capital expenditures and labor force additions to alleviate pressures on capacity. In contrast, contacts mentioned that lower expectations for farm income had slowed purchases of farm equipment. Several contacts also noted closely watching inventory and staffing levels in the event that increases in uncertainty in the economic outlook and financial market volatility took a toll on demand. A retail contact indicated that holiday inventories will likely be higher this year because retailers had been very optimistic at the time the orders were made. Labor market conditions weakened, with hiring still slow and unemployment edging up in the District. In addition, a large staffing firm reported a decline in billable hours for staffing and professional services as well as fewer permanent placements.

Construction/real estate. Construction activity softened in July and August. Residential real estate conditions remained weak. There was little new single-family home construction during the reporting period. Builder showroom traffic declined, as contacts noted an inability to maintain the slight momentum they had seen early in the summer sales season. Nonresidential construction also fell overall. Public construction work slowed some and commercial construction remained low. In contrast, contacts noted continued strength in demand for industrial construction, particularly from the automotive sector, and a slight uptick in demand from the retail sector. Commercial real estate conditions were little changed, with vacancy rates steady and downward pressure on rents.

Manufacturing. Manufacturing production appeared to have settled down to a slower pace of expansion in August after experiencing some volatility in output during July. Demand for heavy equipment moderated from its robust pace during the first half of the year. However, contacts noted as reasons for its expected continued strength robust activity in the energy and mining sectors, pending regulatory emissions requirements, low dealer inventories, a lack of used equipment, and an aging rental fleet. Auto production increased in July before leveling off in August, as inventories returned to more comfortable levels. District automakers also reported no change in production plans, despite concerns about the recently slower gains in sales. Capacity utilization in the steel industry remained at a record high level, with order books solid and steel service center inventories still tight. Manufacturers of industrial metals cited a significant softening in orders for near-term delivery, but a pick-up in recent weeks in higher volume, longer-lead time orders. In contrast, shipments of household appliances and construction materials continued to decline.

Banking/finance. Credit conditions tightened moderately over the course of the reporting period. Volatility in financial markets increased dramatically in early August. Contacts cited S&P's downgrade of the U.S. credit rating, increased concerns about a European sovereign debt default, and reduced expectations for growth in the second half of the year as reasons for the increase in volatility. Corporate funding costs moved higher as a flight to quality caused credit spreads to increase. Business loan demand fell, with bank contacts indicating that heightened uncertainty had led many customers to adopt a "wait-and-see" attitude. Private equity investment also slowed. On the supply side, the availability of commercial and industrial credit continued to improve both for large and small borrowers, with stiff competition for the highest quality customers. Some traditional real estate lenders were reportedly moving into the commercial and industrial market, increasing competition and further lowering the cost of capital for these borrowers. That said, contacts expressed concern that recently announced layoffs at several large commercial banks and declining bank stock prices do not bode well for future credit availability.

Prices/costs. Elevated commodity prices continued to put pressure on costs in July and August. While prices for industrial metals like copper and steel eased some, they are still elevated.

In addition, several manufacturers reported extended material lead times, particularly for specialty metals. Energy prices also moved lower, but contacts indicated that these lower prices have not yet been reflected in reduced fuel surcharges. In contrast, food prices continued to rise. Manufacturers and retailers both indicated a high rate of pass-through to downstream prices. Wage pressures remained moderate, but a few contacts noted that wages were starting to increase.

Agriculture. Corn and soybean crop conditions declined markedly in the primary production areas of the District due to hot temperatures and a lack of precipitation during July and August. Reports that lower quality corn was being used to produce biofuel despite its higher production costs were indicative of just how low stocks have fallen. Cash prices for corn, soybeans, and wheat rose during the reporting period. Ethanol plants were pushing up the bidding for corn to be used in fall production. Hot weather stressed animals, lowering the output of meat and dairy products. Hog prices set nominal records, while milk and cattle prices moved up as well. Sale prices for farmland continued to move higher.

Eighth District — St. Louis

Summary

The economy of the Eighth District has continued to grow at a modest pace since the previous report. Manufacturing activity has continued its increase since the previous report, and activity in the services sector also has increased. Retail sales in July and early August declined slightly over year-earlier levels, and auto sales increased over the same period. Residential real estate market activity has continued to decline. Commercial real estate market conditions were weak, while industrial real estate activity has increased in many areas of the District. Overall lending at a sample of large District banks increased modestly during the three-month period ending in July.

Consumer Spending

Contacts reported that retail sales in July and early August were down slightly, on average, over year-earlier levels. About 29 percent of the retailers saw increases in sales, while half saw decreases and 21 percent saw no changes. Roughly 48 percent of the retailers reported that sales levels were below their expectations, 43 percent reported that sales met expectations, and 9 percent reported that sales were above expectations. About 29 percent of the retailers reported that their inventories were too high, while 17 percent reported that their inventories were too low. The sales outlook for September and October was mixed: About 42 percent of the retailers expect sales to increase over 2010 levels, while 29 percent expect sales to decrease and 29 percent expect sales to be similar to those of last year.

Car dealers in the District reported that sales in July and early August were up, on average, compared with last year's sales. About 62 percent of the car dealers surveyed saw increases in sales, while 21 percent saw decreases and 17 percent saw no changes. About 29 percent of the car dealers noted that used car sales had increased relative to new car sales, while 21 percent reported the opposite. Also, about 17 percent of contacts reported an increase in sales of low-end vehicles relative to high-end vehicles, while 4 percent reported the opposite. About 83 percent of the car dealers surveyed reported that their inventories were below desired levels, while 4 percent reported that their inventories were too high. The sales outlook for September and October was mostly optimistic: About 67 percent of the car dealers expect sales to increase over 2010 levels.

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 heating, ventilation, and air conditioning; art goods; packaging; bioscience; power hand tools; and sanitary paper products manufacturing industries reported plans to expand operations and hire new workers. In contrast, firms in the appliance and burial casket manufacturing industries announced plans to close plants and lay off employees.

Activity in the District's services sector has continued to increase since our previous report. Firms in scientific research, business support, health care, aviation, and automotive repair and maintenance services announced plans to expand operations and hire new workers. In contrast, a contact in the parking garage services industry reported plans to decrease operations in the District and lay off employees.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, July 2011 year-to-date home sales were down 8 percent in Memphis, 13 percent in St. Louis, 14 percent in Louisville, and 15 percent in Little Rock. Residential construction also continued to decrease throughout the District. July 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 18 percent in Memphis, 21 percent in Louisville, 26 percent in Little Rock, and 28 percent in St. Louis.

Commercial real estate market conditions were generally weak, while industrial real estate activity increased in many areas of the District. Compared with the first quarter of 2011, second-quarter 2011 suburban office vacancy rates increased in St. Louis and Louisville but decreased in Little Rock and Memphis. The downtown office vacancy rates increased in Little Rock, Memphis, and St. Louis but decreased in Louisville. During the same period, industrial vacancy rates decreased in all the major metro areas except St. Louis, where rates increased. Industrial and commercial construction activity has been mixed across the District, with some areas noting growth in industrial construction. A contact in south-central Kentucky noted several new retail-related construction projects, while contacts in Louisville reported very slow speculative construction activity. A contact in southern Indiana reported that while major commercial construction remains very slow, energy as well as industrial construction is expanding. Contacts in St. Louis reported that industrial and commercial construction projects remain scarce, while contacts in western Illinois noted major education-related construction projects.

Banking and Finance

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

Agriculture and Natural Resources

The fraction of pastures in fair or better condition has declined in most District states except Mississippi since the previous report. Crop production has been mixed in the District. Corn, cotton, and sorghum production increased from 2010 to 2011, while rice and soybean production fell by at least 5.7 percent. The fraction of corn, sorghum, and soybean crops rated as fair or better has fallen, while the fraction of cotton and rice crops similarly rated has risen since the previous report. Year-to-date coal production at the end of July for the Eighth District was 4 percent higher in 2011 compared with the same period in 2010. Meanwhile, monthly production for July 2011 was 7.8 percent lower than July 2010.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy has grown slightly since the last report. Increased activity was noted in consumer spending, tourism, residential and commercial construction, residential real estate, manufacturing, energy and mining. Crop reports were mostly down from last year, but several District agricultural prices have risen recently. Activity in commercial real estate and professional services was flat overall. Reports from labor markets include a mix of layoffs and new hiring, while wage increases remain moderate. Price increases were generally modest.

Consumer Spending and Tourism

Consumer spending increased moderately. A major Minneapolis-based retailer reported that same-store sales in July increased over 4 percent compared with a year earlier. Two Minnesota restaurant and bar chains reported that recent sales were up modestly from last year. A North Dakota mall manager reported that sales and traffic were steadily up during July and August compared with a year ago. After a relatively soft July, sales and traffic picked up by mid-August at a South Dakota mall. Bank directors noted that luxury goods showed signs of strength, such as sales of jewelry and high-end vehicles.

Minnesota auto dealers were profitable, with recent sales up from last year but still down substantially from 2006, according to an auto dealers association representative. Two auto dealers in Montana reported recent gains in sales from a year ago, but a third dealer described sales as dismal.

Tourism activity was solid in July and August. While early summer rains and high river levels hampered fishing and other outdoor activities in Montana, overall tourism picked up in July. Tourism businesses in northwestern Wisconsin were busy during July and August, according to an official. Activity was up about 5 percent compared with last year in the Upper Peninsula of Michigan; hotels were able to raise prices without losing volume.

Construction and Real Estate

Commercial construction activity has increased slightly since the last report. Respondents to a mid-August Minneapolis Fed ad hoc survey reported an increase in revenues, primarily due to a number of small commercial retrofitting projects in the Minneapolis-St. Paul area. Rebuilding in flood-damaged areas was also mentioned. However, the value of commercial building permits in the Sioux Falls, S.D., area was down slightly in July from July 2010. Residential construction increased from last year. The value of residential building permits in July increased significantly from the same period a year earlier in both the Sioux Falls and Minneapolis-St. Paul areas.

Commercial real estate markets were flat. Commercial real estate respondents to the Minneapolis Fed's ad hoc survey noted flat revenues and profits over the past three months. Comments from Minneapolis-St. Paul area contacts include the following: "There is very little activity in the leasing, sales and land development arena." "The market is full of fence sitters because of general uncertainty about the economy." Residential real estate markets grew. Home sales in July were up significantly from the same period a year ago in the Minneapolis-St. Paul and Fargo, N.D., markets. However, July pending sales of homes in the Sioux Falls area decreased from July 2010.

Services

On balance, professional business services firms reported flat activity over the past three months. A third of services firms that responded to the ad hoc survey saw increased sales, while a third saw decreased sales. Respondents noted that profits were also flat, but they expect increased activity over the next three months. An information technology company noted that July sales were down due to reduced demand from the government and financial services areas.

Manufacturing

Manufacturing activity increased slightly. A July survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased in Minnesota and South Dakota, but declined slightly in North Dakota. A metal fabricator announced plans to expand a facility in northwestern Montana. Nearly three-quarters of manufacturing respondents to the Minneapolis Fed's ad hoc survey indicated that their sales increased in the past three months, and 60 percent expect them to increase in the next three months.

Energy and Mining

Activity in the energy and mining sectors continued at strong levels since the last report. Late-August oil exploration activity increased from mid-July. Iron ore shipments from District mines increased 18 percent in July from a year earlier, according to a Great Lakes shipping organization. Activity at Montana mines remains strong, driven by high metals prices, according to contacts.

Agriculture

Ninth District agricultural production is expected to decrease from last year, while prices remain strong. Montana and North Dakota durum wheat production estimates for 2011 were down a combined 57 percent from 2010, according to the U.S. Department of Agriculture. Spring wheat and soybean production estimates for District states were down 18 percent and 10 percent, respectively. In contrast, District corn production estimates increased about 5 percent over last year. Prices for many District agricultural commodities increased since the last report, including corn, soybeans, wheat, dairy, cattle and hogs; poultry prices decreased recently.

Employment, Wages and Prices

Reports from labor markets include a mix of layoffs and new hiring. During a 20-day Minnesota government shutdown in July, 22,000 government employees were out of work. By delaying state funding and inspections, the shutdown also idled many construction projects across Minnesota. A bank recently announced plans to cut nearly 150 employees at its brokerage unit in Minneapolis. However, during July, Minnesota gained 8,200 private sector jobs. Minnesota auto dealers have started to hire more sales staff. About 11,000 new jobs related to oil drilling are expected in North Dakota, according to an announcement by a firm with operations there. According to the ad hoc survey, 19 percent of respondents expect to increase employment over the next three months, while 10 percent expect to decrease employment. A new fabrication plant in Montana will lead to 100 more jobs, and a sporting goods manufacturer in Minnesota announced plans to add 100 jobs over the next two years.

Wage increases remained moderate, although some contentious contract negotiations were reported. For example, a sugar beet refining company locked out 1,300 workers beginning Aug. 1.

Overall price increases were modest. A July Augustana College survey of Sioux Falls businesses indicated little change in prices received for their products and services. Except for gold, a number of metal prices have decreased since the last report, although they remain well above year-earlier levels. Diesel fuel and gasoline prices were still nearly a dollar per gallon higher than a year ago, but their rate of increase has slowed. Input costs increased over the past three months, according to 46 percent of the ad hoc survey respondents; only 9 percent indicated decreases.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded modestly in late July and early August. Consumer spending edged up with solid back-to-school shopping and stronger than expected auto sales. Led by durable goods production, District manufacturing activity grew slightly, with expectations for stronger activity over the coming months. Despite solid multi-family building activity, residential and commercial construction remained weak. District drilling activity expanded further in July and August with expectations of a seasonal rise in energy prices heading into the winter. Rising input costs and extreme weather trimmed farm profits, and farm capital spending slowed. District bankers reported further improvements in loan quality amid weaker loan demand, while a flight-to-quality boosted bank deposits. Inflationary pressures softened in the District as fewer retailers and manufacturers expected to raise prices in coming months. Wage pressures were confined to high-skilled positions, despite District unemployment rates well below national levels.

Consumer Spending. Consumer spending rose modestly in late July and early August and was expected to remain solid in the months ahead. District retailers reported higher than expected sales and were somewhat optimistic about future business activity. Apparel and accessory items sold well during the back-to-school shopping season, but demand remained sluggish for large-ticket household items and appliances. Auto dealers reported strong sales, especially for new and used economy cars. Auto sales were expected to increase with the introduction of the new model year, and some dealerships were hiring salespeople and service technicians. Restaurants remained busy as total sales increased despite smaller average check amounts. After improving during the last survey period, travel and tourism activity generally held steady through the summer vacation season. District hotel owners reported increased occupancy at slightly lower average room rates.

Manufacturing and Other Business Activity. Manufacturing and high-tech service activity expanded slightly during the survey period, while transportation activity edged down. Manufacturing activity expanded at durable goods factories, particularly those producing machinery and electronic products, offsetting weakness at non-durable goods plants. The volume of new orders dipped in July, rebounded in August, and was expected to remain solid during the next six months. Shipment volumes held relatively steady, and order backlogs improved with a slight drop in finished goods inventories. With increased activity, durable goods manufacturers hired additional workers, while non-durable goods factories reduced worker hours. After softening earlier in the summer, capital spending was expected to strengthen in coming months. The high-tech industry reported a modest increase in sales, but contacts were concerned that economic uncertainty could dampen demand. Following steady growth during the last few months, activity in the transportation sector dipped below expectations, and firms remained concerned about high fuel costs and a shortage of qualified drivers.

Real Estate and Construction. Residential and commercial real estate activity remained weak in late July and early August. Increased buyer traffic and declining home prices did not spur significantly more residential sales, and existing home inventories rose further. Several real estate contacts thought that economic uncertainty was limiting potential home buyer purchases despite low mortgage rates and reduced home prices. Residential mortgage lenders reported fewer loans for home purchases but an increase in loan refinancing activity. With more people staying in their current homes, construction supply firms noted solid sales for remodeling projects. After an early summer lull, some residential builders reported an uptick in building starts. With the exception of multi-family building projects, new commercial construction was very limited. Commercial real estate prices declined with weaker sales. Yet, lower commercial rents helped trim vacancy rates at commercial properties. District contacts expected commercial prices, rents and vacancy rates to hold steady in coming months. Developers reported little change in access to credit.

Banking. In the recent survey period, bankers reported further improvements in loan quality and increased deposits amid somewhat weaker loan demand. Compared to a year ago, loan quality improved with lower delinquency rates, and bankers expected further improvements during the next six months. Overall loan demand decreased slightly as demand for commercial real estate loans declined, while demand for commercial and industrial loans, residential real estate loans, and consumer installment loans held steady. Credit standards remained largely unchanged in all major loan categories. Deposits increased for the fifth straight survey with a few bankers noting that a flight-to-quality supported increased deposits. Bankers cited a weak and uncertain economic recovery and financial regulation as factors shaping expectations for the rest of the year.

Agriculture. Extreme weather and rising input costs dampened farm income expectations since the last survey period. Drought continued to stress crops in Kansas and accelerated feedlot placements in Oklahoma due to poor pasture conditions. In contrast, most of the corn and soybean crops in Nebraska were in good or better condition with isolated reports of storm damage from high winds and hail. Farm capital spending waned as producers paid higher prices for production inputs such as fuel, fertilizer, and feed. Rising input costs strained profit margins, despite a modest rise in commodity prices. Loan repayment rates eased with weaker farm income. Farmland values rose further, but the pace of appreciation slowed.

Energy. Energy activity expanded further in late July and early August, and additional gains were expected in the coming months. The number of active drilling rigs in the District rose solidly as additional oil rigs in Oklahoma and New Mexico more than offset a slight decline in Wyoming. Wyoming producers noted that fewer drilling permits were being issued in the Powder River Basin, and the approval process for additional permits was taking longer. Several contacts reported that future drilling activity could be constrained due to a lack of qualified labor, equipment and supplies, and to a lesser degree, availability of financing. Some firms were offering higher wages to retain and recruit engineers and skilled field operators. Crude oil prices were expected to move higher due to strong global demand, but most producers felt natural gas prices would hold steady until the winter heating season began. District coal production increased in late July and early August, but remained below year-ago levels. Ethanol prices and profits retreated from recent highs as the industry increased production.

Wages and Prices. Inflationary pressures softened during the last survey period as wage pressures remained low and fewer businesses expected to raise prices over the coming months. Most industries did not plan to raise wages, except for a few skilled positions, such as engineers, software developers, mechanics, and truck drivers. After rising modestly during the past survey period, fewer retailers expected to raise selling prices over the next three months. Restaurateurs, however, expected further increases in menu prices due to rising food costs. Fewer manufacturers reported price increases for raw materials, and most did not plan to pass on higher costs to finished goods prices. Builders and construction supply companies noted prices for construction materials generally held steady, with the exception of higher prices for petroleum-based products such as roofing shingles and asphalt. Transportation companies continued to pay high fuel prices, and some were considering raising rates.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a modest pace since the last report. Reports from manufacturers were mixed, and activity in the services sector rose slightly. The single-family housing sector remained weak, but activity in the multifamily sector was strong and the commercial real estate sector saw continued improvement. Financial services respondents said overall loan demand was flat during the reporting period. The energy industry continued to expand at a robust pace, while agricultural conditions deteriorated further in the District. Employment levels were stable at most responding firms and price pressures were unchanged. Numerous contacts said stock market volatility, declining consumer confidence and uncertainty regarding national economic conditions had dampened their outlook.

Prices Overall, prices were unchanged from the last report, although there were some reports of price increases. Food producers noted a continued rise in commodity prices, particularly for corn. Accounting, legal and staffing firms reported slight increases in rates charged for their services, and airlines noted fare increases in the high single digits compared to last year's levels. Contacts in rail transportation said they had rolled back some earlier instituted increases in shipping rates, and airlines and cargo service firms reported benefitting from lower fuel prices. Retailers noted slight declines in overall prices, although increases were seen for high-end goods and certain products affected by higher cotton prices.

The price of WTI fell from near $100 per barrel in early July to $85 at the end of the reporting period in late August. Natural gas, gasoline and diesel prices fell since the last report, and prices for most petrochemical products were flat or down.

Labor Market Most responding firms reported steady employment levels, and some noted slight hiring activity. Staffing firms continued to see steady demand at high levels. Most transportation equipment, food and metals manufacturers reported an increase in payrolls, and some said they had increased work hours as well. A few contacts at legal services, auto sales, energy, and transportation service firms reported modest employment increases. Wage pressures remained minimal, although upward pressure was noted by one transportation equipment manufacturer.

Manufacturing Reports from construction-related manufacturers were mixed, but suggest overall activity levels were unchanged. Manufacturers tied to residential construction generally reported continued sluggish demand. Primary metals manufacturers saw a broad-based increase in activity, and producers of lumber and wood products noted a pickup in demand partly due to remodeling projects. Construction-related outlooks remained weak, and some contacts expressed concern about the uncertainty surrounding the national economy and lack of sufficient backlogs.

Respondents in high-tech manufacturing report that growth in sales and orders weakened since the last report. Demand for basic memory products such as DRAM has weakened, while continued growth in demand for servers to store and process data has kept orders for microprocessors growing at a solid pace. Slow growth in Asia and increased uncertainty about the European and US economic outlooks has reduced business investment in high-tech products. The outlook for the next three to six months is for weak but positive growth.

Paper manufacturers reported that demand growth softened slightly during the reporting period, but remained better than last year's levels. Manufacturers of transportation equipment reported strong sales with demand flat to up since the last report and well above year-ago levels. Outlooks are optimistic, with contacts expecting demand to hold steady at current high levels over the next few months. Food producers reported a seasonal uptick in demand, but noted that they had seen a significant decline in overall sales compared with earlier in the year.

Petrochemical producers reported that after about six months of extensive plant outages, shortages of key materials, and dramatic price increases, resin and plastics markets have settled. Contacts said demand for most products remained good since the last report, with the exception of PVC products due to weak construction markets. Refiners said capacity utilization rates were the highest since 2007, and margins were strong based on good demand. Orders for oil products slipped in July, but strengthened again in August, according to contacts.

Retail Sales Retail demand was unchanged since the last report, but sales rose in the mid-to-low single digits from a year ago. Back-to school sales activity picked up slightly. Apparel, especially women's clothing, and fine jewelry are segments that have shown strength recently. There is some concern regarding recent stock market volatility and its potential impact on consumer confidence, but this has not affected store activity, reported contacts. Sales in Texas and the Southwest region continued to outpace those nationwide by a slim margin, according to two large retailers, and expectations are for continued modest growth through year-end.

Automobile sales continued to improve, and contacts say supply issues from Japanese manufacturers should resolve by the end of September. Demand for used cars remained high, along with their prices. Contacts were optimistic and expect sales to increase through year-end.

Services Overall demand for staffing services held steady at high levels, although several firms noted slight declines in activity. One contact reported that temporary placements were being outpaced by direct hiring activity. Outlooks were more cautious than the previous reporting period, with contacts expecting demand to remain flat or decline through year-end. Demand for accounting services was flat, although contacts noted some strength in mergers and acquisitions activity. Legal firms reported continued solid demand for intellectual property, energy, IPO, and mergers and acquisitions services.

Reports from transportation service firms were mostly positive, but suggest that uncertainty surrounding the national economy has somewhat weakened outlooks. Intermodal cargo volumes increased since the last report. Railroad shipments rose slightly, with particularly strong volume growth in metallic ores, petroleum products and non-commercial building products. Container volumes declined during the reporting period, and contacts reported a weaker outlook than during the earlier reporting period. Small parcel shipments rebounded in August after declining in July, in part due to growth in retail trade activity. Airline traffic held steady over the past six weeks. Demand for travel within the US and to Latin America was solid, but travel to Asia and Europe remained weak. Airline contacts expect to see modest improvement in revenues in the fourth quarter.

Construction and Real Estate Contacts in the single-family housing industry said new and existing home sales rose slightly since the last report, although the market remains weak overall. Existing home inventories declined and new home inventories remained lean. Respondents are cautious in their outlooks, but most expect a slight improvement in sales in the second half of the year, with a slow recovery taking hold by early 2012.

Apartment demand was strong during the reporting period, and rental rates continued to rise. Contacts also noted increased sales of apartment properties. Leasing activity for office and industrial space continued at a moderate pace since the last report. Contacts noted strong demand in Houston stemming, in part, from energy activity.

Financial Services Most financial firms reported relatively flat loan demand, with the exception of one contact who noted a slowdown in lending activity. Contacts at national banks said they are concerned about the loss of momentum for a self-sustaining recovery and are seeing customers approach borrowing decisions conservatively. Regional banks said loan pricing remained aggressive. Outlooks are generally less optimistic than the prior reporting period, although outstanding loan quality remains stable and there continues to be gradual improvement in lending conditions.

Energy Texas drilling activity rose since the last report, with the state adding 43 rigs over the past six weeks. Most of the demand is from land-based drilling, led by horizontal drilling and fracturing. Initially applied to natural gas formations, success is growing in application of these technologies to oil basins, such as the Permian Basin. Contacts noted that activity in the Gulf of Mexico remained weak, with only a few recent permits approved for drilling.

Agriculture Drought conditions remain severe and agricultural losses in the state have reached $5.2 billion, surpassing the 2006 record of $4.1 billion, according to Texas AgriLife Extension Service estimates. Dry weather and high temperatures have reduced yields and increased abandonment of crops. The livestock sector has also suffered greatly, with very poor grazing conditions necessitating costly supplemental feeding and in many cases the selling off of herds. An increase in the number of cows and calves being sold has dampened cattle prices. Grain prices have generally increased since the last report, partly driven by lower production expectations. Strong export demand for beef has benefitted the district's livestock sector.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to expand modestly during the reporting period of mid-July through the end of August. Upward price pressures were mixed but appeared to ease overall, and upward pressures on wages were subdued. Demand for retail items edged up on balance, as did demand for business and consumer services. Manufacturing activity in the District grew a bit further. Demand remained robust for agricultural producers but fell slightly for providers of energy resources. Activity in District housing markets stayed sluggish, and demand for commercial real estate was largely unchanged. District banking contacts indicated that overall loan demand was stable or inched down.

Wages and Prices

Upward price pressures were very limited on net during the reporting period. Further modest price declines were noted for energy inputs and some raw materials. Stiff competition among domestic firms, combined with weak final demand, resulted in largely stable prices for most categories of final goods and services. The primary reported exceptions were clothing and medical care, for which recent cost increases were passed through to final prices.

Upward wage pressures were largely nonexistent, as compensation gains were held down by high levels of unemployment and limited demand for new hires. As a result of uncertain product demand, businesses in most sectors expect to remain highly cautious in regard to hiring for the foreseeable future, suggesting that compensation pressures are likely to remain subdued. However, contacts continued to report significant upward wage pressures for workers with advanced skills in technology fields.

Retail Trade and Services

Retail sales were mixed but rose a bit overall. For general merchandise such as apparel and smaller household items, contacts reported modest improvements in sales, with stronger performance for traditional department stores than for discount chains. By contrast, retailers of major appliances and furniture reported weaker demand resulting from a renewed sense of caution on the part of consumers. Grocery sales were largely flat. Sales of new automobiles improved somewhat, despite ongoing shortages of parts and assembled vehicles for some brands arising from the natural disaster in Japan earlier this year. The demand for used vehicles continued to firm, with contacts noting rising sales and additional upward pressure on prices and trade-in values.

Demand for business and consumer services continued to strengthen overall. Sales expanded further for providers of technology services, as consumer demand for software, e-books, and mobile applications continued to grow. Providers of professional services such as law and accounting reported that demand was little changed from the prior period. Similarly, demand for transportation services was characterized as largely flat. For energy utilities, demand waned a bit during the beginning of the reporting period but improved later. Providers of health-care services reported that demand strengthened somewhat. Conditions in the District's travel and tourism industry improved further, with demand growth reported for the business and tourism segments alike.

Manufacturing

District manufacturing activity was mixed but appeared to grow slightly during the reporting period of mid-July through the end of August. Although manufacturers of semiconductors and other technology products reported slower growth for new orders and sales, capacity utilization rates remained high and inventories were near desired levels given the pace of sales. For makers of commercial aircraft, significant increases in new orders for narrow-body aircraft combined with an existing order backlog to keep production rates near capacity. A metal fabricator noted that sales were "steady but slow" and raw materials were readily available. Petroleum refiners reported slightly weaker demand and capacity utilization rates that were largely stable, causing product inventories to rise somewhat. Demand held at very low levels for manufacturers of wood products.

Agriculture and Resource-related Industries

Demand grew further for agricultural products and metals but was down slightly for natural resources used for energy production. Orders and sales continued to expand for a wide variety of crop and livestock products, especially cattle and cotton. Contacts noted that agricultural input costs have stabilized following significant increases in the spring. Rising sales prices for assorted metals spurred further increases in mining activity in parts of the District. Overall demand for crude oil weakened a bit, primarily reflecting weaker domestic demand, but extraction activity for natural gas was largely unchanged.

Real Estate and Construction

Demand for housing and for commercial real estate was little changed from existing low levels. Although the reports pointed to scattered signs of improvement in the entry-level and high-end segments of the District's housing markets, the pace of home sales and construction remained depressed. By contrast, demand for rental space continued to grow, enabling landlords to increase rents and scale back tenant concessions in some areas. Demand for commercial real estate remained weak overall, and vacancy rates for office and industrial space stayed elevated throughout the District. Conditions were mixed across geographic markets, with deterioration in leasing activity for some areas contrasting with ongoing improvements in areas that have benefited from growth in the technology sector, such as the San Francisco Bay Area and Seattle.

Financial Institutions

Reports from District banking contacts indicated that loan demand was largely stable to marginally down compared with the prior reporting period. Citing heightened levels of uncertainty, some businesses showed a reduced desire to engage in expansionary capital spending, reportedly causing demand for commercial and industrial loans to weaken slightly. Contacts in most sectors reported downward revisions to their expectations for growth in their industry for the remainder of the year, suggesting that capital spending will remain muted in coming months. On the consumer side, loan demand was largely unchanged. While lending standards remained relatively restrictive for business and consumer loans, the reports pointed to ongoing improvements in overall credit quality and some loosening of credit standards for selected borrowers.