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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

July 2013

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

JULY 2013

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Summary*

Reports from the twelve Federal Reserve Districts indicate that overall economic activity continued to increase at a modest to moderate pace since the previous survey. Manufacturing expanded in most Districts since the previous report, with many Districts reporting increases in new orders, shipments, or production. Most Districts noted that overall consumer spending and auto sales increased during the reporting period. Activity in a wide variety of nonfinancial services was stable or increased in most reporting Districts. Transportation was stable or increased in several Districts. Tourism remained strong in some reporting Districts, although several Districts noted softness from bad weather. Residential real estate and construction activity increased at a moderate to strong pace in all reporting Districts. Commercial real estate market conditions and construction continued to improve across the Districts. Banking conditions generally improved across the Districts. Credit quality improved, while credit standards remained largely unchanged. Agricultural conditions were mixed, as weather patterns varied, while extraction was generally stable or increased.

Hiring held steady or increased at a measured pace in most Districts, with some contacts noting reluctance to hire permanent or full-time workers. Wage pressures generally remained contained, although some Districts reported modest or moderate wage growth in some sectors. Price pressures for inputs and final goods remained stable or modest.

* Prepared at the Federal Reserve Bank of St. Louis and based on information collected on or before July 8, 2013. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Manufacturing and Other Business Activity

Manufacturing increased in most Districts since the previous survey. The exception was Kansas City, which noted a slight contraction, with storms retarding some activity. Most Districts reported stable or increasing new orders, shipments, and production. Reports from contacts in the Cleveland, Chicago, and St. Louis Districts indicated moderate growth in manufacturing. The Minneapolis District further noted that more manufacturing firms increased activity than in the previous report; the Boston, New York, Richmond, Atlanta, and San Francisco Districts noted that the uptick was modest; and the Philadelphia and Dallas Districts noted slight improvements. Firms in the Boston, Philadelphia, and San Francisco Districts were broadly optimistic about prospects for the second half of 2013, while manufacturers in the Richmond District were cautiously optimistic; contacts expressed mixed outlooks in the Dallas District, and contacts in the Cleveland and Atlanta District do not expect future production to be as high as previously projected.

Strong demand in residential construction continued to stimulate the manufacturing sector in several Districts. Home-building suppliers in the Philadelphia and Cleveland Districts reported strong activity. Wood product manufacturers expanded operations and increased production in the St. Louis and San Francisco Districts. A cement producer in the Dallas District saw a very strong market. Demand for construction equipment picked up in the Chicago District.

Automobile manufacturing remained a source of strength in the Chicago, St. Louis and Minneapolis Districts. Steel and metal production increased in several Districts, including Philadelphia, Chicago, Minneapolis, Dallas, and San Francisco. Fabricated metal manufacturers in the Philadelphia and Dallas Districts reported gains. Primary metal production was steady at strong levels in the Dallas District, while reports on primary metal orders in the Philadelphia

District were mixed. Specialty metal manufacturers in Chicago saw modest improvement in demand. The metal-forming business in Minneapolis is having a very strong year. Gains were reported by petroleum refining manufacturers in the St. Louis and Dallas Districts. Reports on semiconductor orders in the Dallas District were mixed, and semiconductor firms in the San Francisco District said sales increased substantially. Electronic equipment firms in the Philadelphia District reported lower activity. Food producers in the Philadelphia and Kansas City Districts saw weaker activity, while demand for heavy equipment in the Chicago District remained soft.

Nonfinancial services activity was steady or increased in the New York, Philadelphia, Richmond, St. Louis, Minneapolis, and Dallas Districts. Transportation services were stable in the Richmond and Kansas City Districts, increased in the Cleveland, Atlanta, and Dallas Districts, and contracted in the St. Louis District. Consulting service firms in the Boston, St. Louis, and Minneapolis Districts have experienced increased demand and expanded operations since the previous reporting period. Accounting service contacts in the Richmond and Dallas Districts saw strong demand, while telecommunication service providers in the Richmond and St. Louis District reported increased activity. High-tech service firms in the Kansas City District and a software design firm in the Richmond District saw rising revenues, and software developers were in high demand in the San Francisco District.

Consumer Spending and Tourism

Most Districts noted that overall consumer spending increased during the reporting period. Reports from the Boston, Chicago, Philadelphia, Richmond, Atlanta, St. Louis, Minneapolis, and San Francisco Districts indicated modest or moderate growth in retail spending, while reports from the Cleveland, Kansas City, and Dallas Districts indicated steady to

slightly higher sales. The New York District noted that retail sales in May and June had softened. Retailers in the New York, Cleveland, Atlanta, and St. Louis Districts reported that sales had not met expectations. Contacts in the New York, Philadelphia, Cleveland, Richmond, and Atlanta Districts also noted that weather conditions constrained retail activity. Demand for tech products was strong or increased in the Boston and San Francisco Districts. The Kansas City District reported that appliance purchases were slow, while the Richmond District reported that big ticket item sales were high. Inventories were at desired levels or slightly high in the New York and Cleveland Districts, and remained tight in the Chicago District. The outlook among retailers was positive in the Cleveland, Dallas, and San Francisco Districts and cautiously optimistic in the St. Louis District.

Most Districts that reported on automobile sales noted increased sales during the reporting period. Strong sales were reported in the Philadelphia, Richmond, Atlanta, Chicago, and San Francisco Districts. Reports from the Cleveland, St. Louis, Minneapolis, and Kansas City Districts indicated steady to moderate sales growth, and contacts in the Dallas District reported that sales were slightly softer than the previous reporting period, although still strong. New car sales increased in the St. Louis and San Francisco Districts, while they held steady at favorable levels relative to the same period last year in the New York District. Used car sales increased in the Cleveland, Richmond, St. Louis, and San Francisco Districts. Auto dealers in the Cleveland, Richmond, Chicago, and Minneapolis Districts reported strong sales for pick-up trucks. The Kansas City and Cleveland Districts expressed an optimistic outlook for future sales.

Travel and tourism increased in the Boston, Philadelphia, Richmond, Atlanta, Kansas City, and Dallas Districts. The New York District noted that tourism had been mixed but fairly robust since the previous report. San Francisco also reported that travel and tourism was mixed

across the District. Weather conditions affected tourism in some areas of the Boston, Philadelphia, and Minneapolis Districts.

Real Estate and Construction

Residential real estate activity increased at a moderate to strong pace in most Districts. Most Districts reported increases in home sales. Cleveland noted that June sales of single-family homes were down compared with earlier in the spring but up from last year. Boston, New York, Minneapolis, Kansas City, Dallas, and San Francisco noted strong residential real estate markets. Home prices increased throughout the majority of the reporting Districts. Boston, New York, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas noted low or declining home inventories and upward pressures on home prices in some areas. Residential construction activity also improved moderately across the Districts, and contacts in New York, Philadelphia, Chicago, Minneapolis, Dallas, and San Francisco reported faster growth in multi-family construction, in particular.

Commercial real estate market conditions continued to improve across most Districts. New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco reported modest to moderate improvements in nonresidential real estate activity. Dallas reported strong growth in leasing activity for office and industrial space. Boston and Richmond reported that commercial real estate conditions were holding steady or improving, depending on location. Nonresidential construction activity was stable or increased throughout the nation. Philadelphia, Atlanta, and Richmond reported that commercial construction was flat to slightly up, while Cleveland, Chicago, St. Louis, Minneapolis, and Dallas noted improvements in commercial construction.

Banking and Finance

Reports on banking conditions were generally positive across the Districts. Overall loan demand increased modestly across most reporting Districts. New York District bankers reported mixed but generally steady loan demand. Some bankers in the Cleveland, Chicago, and Dallas Districts noted competitive pressures to reduce loan pricing. Bankers in the Philadelphia, Richmond, Cleveland, Atlanta, and Chicago Districts noted a shift toward new home mortgages and away from refinancing (which was led, in part, by increases in interest rates).

Reports on credit quality indicated slight to moderate improvements across the reporting Districts. Improvements were noted by the New York, Philadelphia, Kansas City, and Dallas Districts. Credit standards remained largely unchanged, although some bankers in the Atlanta and Philadelphia Districts noted increased competition to ease credit standards.

Agriculture and Natural Resource Industries

Agricultural conditions varied across the Districts because of differing weather conditions. Crop conditions improved in the Chicago and St. Louis Districts, while agricultural production increased in the San Francisco District and is expected to improve in the Kansas City District. Extremely wet conditions delayed planting and even resulted in some farmers in the Richmond and Minneapolis Districts planting soybeans instead of corn. Excessive rains in the Richmond District also damaged the wheat crop in some areas. Contacts noted persistent drought conditions in some areas of the Kansas City and San Francisco Districts and in most of the Dallas District. Winter wheat harvest output yields were highly variable because of crop damage from freezing and drought in the Dallas and Kansas City Districts. The condition of pastureland in the Atlanta and St. Louis Districts improved since the previous report.

Coal production was lower compared with the same time last year for the Cleveland, St. Louis, and Richmond Districts. Energy activity remained robust or steady at high levels in the Atlanta and Dallas District. Natural gas production was stable in the Cleveland District and continued to increase in the Richmond District. Drilling declined in the Cleveland District, was flat in the Kansas City District, and increased in the Richmond District. Oil and gas exploration was up slightly in the Minneapolis District. Mining was flat in the Kansas City District, weakened in the Chicago District, and was sluggish in the Minneapolis District.

Employment, Wages, and Prices

Hiring held steady or increased at a measured pace in most Districts. Contacts in the Philadelphia, Richmond, and Chicago Districts were cautious or reluctant to hire permanent or full-time staff. The Richmond and Chicago Districts noted relatively stronger demand for part-time workers. Transportation contacts in the Cleveland, Atlanta, and Kansas City Districts noted some difficulty finding qualified drivers. Contacts in the New York, Richmond, and San Francisco Districts reported high demand for technology workers.

Most Districts reported that wage pressures remained limited or contained. The Chicago and Minneapolis Districts reported moderate wage pressures. The Chicago District noted that rising healthcare and other benefit costs were being passed onto employees. Contacts in the New York and San Francisco Districts noted that competition for technology workers had an effect on salaries. The Richmond District noted that wage growth picked up in the manufacturing sector, remained robust at non-retail establishments, and flattened at retail businesses.

Overall consumer and input price pressures remained stable or modest in most reporting Districts, although some Districts noted price increases. Most notably, the Cleveland, Atlanta, Chicago, Minneapolis, and San Francisco Districts noted upward pressures on the prices of

construction materials. The Philadelphia and Richmond Districts reported price increases for raw materials and finished goods among manufacturers. The New York District reported that input price pressures have abated further in manufacturing but remained widespread in services. Retail prices remained steady in the Boston, New York, Cleveland, Kansas City, and Dallas District, while retail price growth slowed in the Richmond District and wholesale retail prices increased in the Chicago District.

FIRST DISTRICT – BOSTON

Economic activity in the First District continues to expand at a moderate pace, according to business contacts. Retailers, tourism contacts, manufacturers and consulting and advertising contacts all report modest increases in sales. Commercial real estate conditions are improving or holding steady, depending on location. Residential real estate contacts report increases in both house prices and sales. Overall prices are rising at a modest pace, generally in line with cost increases. Most businesses are holding employment steady, with substantial staffing changes only at firms experiencing significant increases or decreases in sales. Contacts generally expect the recent trend of moderate growth to continue.

Retail and Tourism

Retailers contacted for this round report year-over-year comp-store sales increases ranging between 1 percent and 5 percent. One contact had a low single digit decrease, but notes that sales trends have been improving. Demand is strong for all apparel categories, furniture, sporting goods, and mobile technology. Consumer sentiment continues to pick up, albeit very slowly, and prices at the wholesale and retail levels remain steady. All of the contacts expect continued slow-growth of the U.S. economy.

Through May, hotel revenues are up 1.5 percent year-over-year. Restaurant revenues are up 2 percent, slightly better than expected. Contacts attribute these increases to strong corporate business travel and entertaining. There is some softness in domestic leisure travel, as attendance at museums and other attractions is below expectations. Some of this decrease might be due to record-setting rainfall in New England during June. Contacts expect that leisure travel will increase during the summer travel season.

Manufacturing and Related Services

Most of the 13 manufacturers contacted in this round report modest increases in sales. The one firm to report a significant decline in sales, a manufacturer of electric motors and brakes, could not pinpoint any specific reason for the weakness. Europe remains a source of weakness and China continues to inject volatility for manufacturing exports. One contact reports that sales in China of its products going into new commercial construction were up 46 percent in the second quarter. Only one contact, a manufacturer of textile and printing equipment, specifically mentions the evolving macroeconomic policy picture as an issue, saying that everything depends on what happens to interest rates. All but one of our contacts say that their outlook is for stable or higher sales going forward, but none report having raised their forecasts in the recent months.

Only one of our contacts cites significant staff reductions, the same firm that notes declining sales. That said, the only firms hiring in any significant way are rapidly growing companies in the technology and life science areas. Most of our contacts, 8 of 13, report no change in employment.

All of our contacts, including the one with declining sales, say that their investment plans have not changed and most report the same or higher levels of investment for 2013 as for 2012. Our contact at the firm with declining sales says that they try not to let the business cycle affect investment decisions as, “A good investment is a good investment.”

As far as pricing is concerned, no one reports anything out of the ordinary. Firms that need to raise prices, typically, appear to be able to do so; some raw materials prices, like copper, are less of an issue than they were a year ago.

Selected Business Services

Consulting and advertising contacts in the First District report a generally positive, but not exuberant, second quarter. Economic consulting has experienced very strong demand due to growth of high-stakes litigation. Healthcare and pharmaceuticals consulting contacts gave mixed reports, with several contacts reporting robust demand for services related to process efficiency, effectiveness analytics and marketing support, while another reports a slowdown in IT adoption. Strategy consultants had mixed results, with large firms faring better than smaller firms, largely due to greater exposure to the recently booming private equity industry. Marketing and advertising contacts report a slight uptick in growth from an already strong first quarter. Finally, a government contractor reports flat revenue.

Contacts report either no cost growth or costs rising roughly in line with 2 percent inflation, with the exception of one firm whose health and business insurance premiums rose 8 percent to 10 percent on an annual basis. Firms were roughly split between those facing pressure to keep rates flat and those with robust enough demand to institute rate hikes of 3 percent to 5 percent on an annual basis. About half of contacts report no net hiring, with the others increasing their workforces by 3 percent to 5 percent, mostly through larger incoming classes of entry-level workers beginning this summer. Firms reporting no net hiring were split between those who are waiting for stronger demand to justify hiring and those who hired rapidly in the recent past and are trying to adjust to their new size.

Aside from a government contractor who is too uncertain about the future of fiscal policy to offer any clear forecast, contacts expect growth to either pick up or remain strong for the rest of the year. Aside from the government contractor, contacts were minimally concerned about fiscal issues, the European debt crisis, and the state of the macro economy.

Commercial Real Estate

Commercial real estate markets in the First District are, for the most part, maintaining a solid footing. In Boston, rents on prime retail properties continue to climb and office rents are described as steady or rising, depending on location. Office leasing volume is holding steady in Hartford, although deals consist largely of short-term lease extensions with no expansion of space needs. Also in the

Hartford area, investment sales demand remains strong for multifamily structures, while well-leased office buildings garner growing investor interest. In Providence, office leasing negotiations proceeded slowly as some tenants pushed back against landlords' rising rent demands, and some office sales fell through or stalled in response to June's spike in long-term Treasury rates. Also in response to the latter development, a regional banking contact reports that borrowing rates were raised on some commercial mortgages under negotiation and, moving forward, 10-year fixed-rate loans are likely to become more scarce. However, a Boston contact reports that borrowing rates and capitalization rates on commercial properties held largely steady in recent weeks.

The outlook among First District contacts is for slow improvement in fundamentals for the rest of 2013, but some downside risks were noted. For example, a gun manufacturer in Connecticut announced plans to relocate to South Carolina in response to the state's passage of stricter gun-control laws, taking jobs out of the state and vacating a significant amount of commercial space. Other gun manufacturers in the state are reportedly likely to follow suit in the coming months. A seasonal slowdown in leasing volume is expected in Providence for the summer months, and a few contacts across the District mention interest-rate movements as a considerable source of uncertainty for investment sales moving forward.

Residential Real Estate

Single-family home and condominium sales rose throughout the First District in May. Contacts in the region report strong demand for housing, particularly in urban areas of New England. According to contacts, slight increases in interest rates will likely spur more buyer activity in the short term as households try to lock in historically low interest rates. In Massachusetts, particularly in the Greater Boston area, inventory levels remain low, placing upward pressure on prices. Contacts in the Greater Boston area caution that inventory remains the most significant constraint on sales growth. In other parts of the First District, smaller cities report depleting inventory levels in urban centers, though realtors in these areas feel that a sufficient number of homes are available to satisfy prospective buyers. In contrast to much of the region, Rhode Island maintains a high level of inventory, but that market appears to be recovering as sales activity and prices continue to increase.

Contacts expect sales activity and the median sale price to continue their upward trend. Inventory levels will likely remain an issue in urban areas due to a lack of new construction there. Contacts anticipate that homeowners may be more inclined to list their home for sale as house values continue to appreciate. Overall, contacts feel the market remains poised for healthy growth in the coming months.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has continued to expand moderately since the last report. Manufacturers indicate that input price pressures have abated further, whereas service sector contacts report that they remain fairly widespread; prices of finished goods and services are stable to up slightly. Labor market conditions continue to improve gradually, and businesses have become more willing to negotiate on salary. Retailers report that sales were on the soft side in May and especially in June, whereas new automobile sales are reported to be steady. Tourism activity remains steady at a strong level. Commercial and residential real estate markets have continued to firm throughout the region. Finally, bankers report mixed but generally steady loan demand, no change in credit standards, continued narrowing in loan spreads, and further declines in delinquency rates across all loan categories.

Consumer Spending

Retailers report that sales softened in May and especially in June. One major retail chain reports that same-store sales were little changed from a year earlier, running modestly below plan in May and noticeably below plan in June. Another chain indicates that sales were down noticeably from 2012 levels in both months. In general, New York City stores performed a bit better than those elsewhere in the District—likely buoyed by tourism. Major malls in upstate New York indicate that sales were steady to lower than a year earlier. Most of the retail contacts attribute at least part of the recent softness in sales to unseasonably cold and wet weather. Inventories are generally reported to be at desired levels or a little on the high side. Prices are characterized as steady, and no unusual discounting is reported.

Auto dealers in the Buffalo and Rochester areas report that new vehicle sales were steady at favorable levels in May and June, and continued to run moderately ahead of comparable 2012 levels. Sales of used automobiles are characterized as soft—in large part because of attractive deals on new autos. Wholesale and retail credit conditions for auto purchases remain in good shape.

Tourism activity has been mixed but generally fairly robust since the last report. Manhattan hotels report continued strong business, with total revenues up 7 percent from a year ago: occupancy rates exceeded 90 percent and were roughly on par with a year ago, room rates were up 3-4 percent, and there are about 3 percent more hotel rooms than a year ago. On the other hand, attendance at Broadway theaters has continued to be weak, reflecting considerably fewer shows running than in the spring of 2012. Finally, consumer confidence in the region has improved since the last report: The Conference Board's June survey of residents of the Middle Atlantic states (NY, NJ, Pa) shows confidence rising for the third straight month, approaching its five-year high set last October; Siena College's survey of New York State residents shows consumer sentiment rising to its highest level this year in June, led by upstate New York.

Construction and Real Estate

Residential real estate markets in the District have strengthened further since the last report. Sales prices for Manhattan apartments (co-ops and condos) were up moderately from a year earlier, while sales volume was up nearly 20 percent, further sharply reducing the inventory of units on the market. Rents on Manhattan apartments continue to rise and are running roughly 5 percent ahead of comparable 2012 levels, however, rents have slipped modestly in Brooklyn. New Jersey's housing market has shown more modest signs of improvement: prices are rising slowly, reportedly restrained by an ongoing backlog of distressed properties on the market. However, new construction activity—particularly of rental apartment buildings—is running substantially ahead of a year ago. Finally, housing market conditions remain particularly strong in western New York State: very tight inventory levels have pushed prices up, and multiple offers and bidding wars have become commonplace, despite continued tight lending standards.

Commercial real estate markets throughout the New York City metropolitan region also showed further improvement in the second quarter. Long Island's office vacancy rate slipped below 8 percent for the first time in a number of years, while rates in northern New Jersey, Westchester and

Fairfield counties edged down but remain on the high side. Office rents are little changed from mid-2012 in these areas. Manhattan's office vacancy rate ticked up but remains low as of mid-year, while asking rents are up roughly 5 percent over the past year. Industrial markets have also tightened, particularly in Long Island, where vacancy rates have declined steadily and asking rents are up nearly 8 percent over the past year.

Other Business Activity

The labor market continues to improve at a gradual pace. Two major employment agencies describe market fundamentals as favorable but note that the market is difficult to gauge at this typically slow time of year. One contact notes increasing difficulty in finding candidates with specific skill sets—especially for technology workers—and also finds companies becoming less reluctant to negotiate on salaries. This is described as the best year for college graduates since 2008.

More generally, manufacturing contacts report a modest increase in staffing levels and some pickup in business activity since the last report but do not expect to hire additional workers through the second half of 2013. Contacts in other sectors also report some pickup in both employment and business activity and do plan to ramp up hiring, as well as capital spending, in the months ahead. Input price pressures have abated further in the manufacturing sector but remain fairly widespread among service-sector businesses. Both manufacturers and service-sector contacts report that selling prices are relatively stable.

Financial Developments

Bankers report increased demand for commercial mortgages but decreased demand for residential mortgages. For other loan categories, as well as for refinancing, contacts report no change in demand. Respondents also note that credit standards remain unchanged across all loan categories. Bankers indicate a decrease in spreads of loan rates over costs of funds for all loan categories—particularly in commercial mortgages. Finally, bankers report decreased delinquency rates for all loan categories, but especially for commercial & industrial loans.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District maintained an overall moderate pace of growth during this current Beige Book period. In particular, auto sales accelerated to a strong rate of growth, lending firmed up to a modest rate of growth, and manufacturing activity appears to have grown slightly after declining slightly last period. The growth rate of residential construction, existing home sales, and general services continued at a moderate pace. Commercial real estate leasing continued to expand at modest rates, while commercial real estate construction continued to expand only slightly. General retail sales, staffing services, and tourism appear to have resumed a modest rate of growth this period after a small surge last period. Manufacturing has resumed at a slight rate of growth after declining slightly last period. Loan volumes at Third District banks grew at a modest pace across most categories, a little faster than last period. Credit quality continued to improve. Little change was reported for general price levels as well as for wages and home prices. Contacts reported slight increases overall – similar to the last Beige Book period.

An overall outlook for moderate growth has continued since the last Beige Book. Contacts expressed greater confidence in the consumer and in the sustainability of current trends. Firms remain cautious about hiring and about carrying out their long-term capital expenditure plans. However, firms are more comfortable investing when necessary to replace or upgrade aging equipment and to meet growing demand.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported that orders and shipments are rising again. The makers of paper products, rubber products, fabricated metals, industrial machinery, and instruments have reported gains since the last Beige Book. Firms supplying the home-building sector continued to report strong orders and ongoing hiring to keep pace. The makers of food products and electronic equipment reported lower activity (some was seasonal). Reports were mixed for makers of primary metals. Other contacts attributed growing demand to auto-related business and foreign demand. A negative impact from sequestration was cited by some firms, while others said they avoided the worst effects. Firms continued to report restraint in current hiring but a desire to hire more workers in the near future.

Across nearly all sectors, Third District manufacturers remained optimistic that business conditions will improve over the next six months. Business plans for the remainder of the year have been lowered slightly for some firms. However, firms appear more confident of ongoing, steady growth and more willing to invest in capacity and hire new workers as needed to keep pace with demand. Overall, firms have significantly increased their expectations of future hiring and their plans for capital spending since the last Beige Book.

Retail. Third District retailers have reported modest growth – dampened by rainy weather – since the last Beige Book. Contacts described June and July as seasonally slower months, as local residents head off for summer vacations. However, excessive rain in June kept still more people away from stores, while some showed up just to “hang out” at the mall. Mall operators reported that the general retail climate has improved, citing stronger demand for retail space and rising occupancy rates.

Auto dealers reported that June sales accelerated to a strong rate of growth. Sales, described as “on fire” for the first couple of weeks of June, may have produced “the best [June sales] in six years.” Dealers attributed a better sales climate, in part, to no supply problems, no credit problems, and falling unemployment rates. Dealers are bullish for the next couple of years but continue to hire cautiously.

Finance. Overall, Third District financial firms reported modest increases in total loan volume – a slight improvement since the previous Beige Book. Banking contacts cited stronger demand for all major loan categories, including C&I loans, real estate loans, and consumer loans, including credit cards. Consumer lending and home equity loans remained slow, as refinancings remained a preferred option for homeowners. However, contacts reported a decline in refinance applications in the pipeline after rates rose. Meanwhile, increasing sales of new and existing homes are raising demand for home mortgages. Banking contacts continued to report strong competition for loans and concerns about competitors lowering their lending standards. However, most banks reported “improvement in all aspects of business,” including “more upgrades of credits” within their own portfolios. Contacts expressed continued optimism for future growth and sensed greater customer confidence.

Real Estate and Construction. Homebuilders throughout most of the Third District continued to report moderate growth. Though traffic and sales were soft in a few markets, most builders are meeting their plan for the year with increases as high as 40 percent. Builders reported no systemic impediments to sales, such as credit availability and mortgage issues. Some builders still face labor shortages for carpentry and framing work, and several contacts have reported a shortage of finished land. Moderate growth of existing home sales continued through June, according to residential brokers. Sales closed and sales pending grew by double digits (year over year) in several larger metropolitan areas in the Third District. The estimated months’ supply of the existing inventory of homes has fallen to near six months in many areas. Brokers say the anticipated shadow inventory of homes has not yet emerged.

Nonresidential real estate contacts continued to report little change in the modest pace of overall leasing activity and slight growth of construction. Although the overall climate for new

construction “is getting incrementally better,” contacts reported a renewed strong push for industrial structures along the I-81 and I-76 corridors throughout eastern Pennsylvania and into central New Jersey. Construction activity also remains greater for multifamily residential units, higher education facilities, and public utility infrastructure. Contacts continued to report heavy competition and thin margins on projects. Overall, contacts remained optimistic for a continuation of slow, steady growth.

Services. Third District service-sector firms continued to report a moderate pace of growth overall. Despite earlier strong bookings, shore destinations in Delaware and New Jersey reported somewhat lower activity (traffic counts, bookings, and boardwalk sales) and cited rainy weather through much of June as one source of the problem. A multimillion dollar advertising campaign has helped boost Jersey Shore activity, but tourism in the areas hardest hit by Hurricane Sandy is still down somewhat more than is necessitated by the actual damage. Casino revenues from Atlantic City and the state of Delaware remain on a downward trend, and reports from Pennsylvania casinos indicate that revenue from slot machines appears to be turning in the same direction.

In other sectors, firms cite steady progress – rising consumer confidence, limited cost pressures, and growing sales. A staffing firm reported a slight sag in billable hours for June following strong growth through May year to date. Other service-sector firms reported “incrementally better” growth, tight margins, and cautious hiring. Contacts offer mixed reports on their ability to attract qualified workers while generally citing no wage pressures. Overall, service-sector firms remain optimistic about future growth.

Prices and Wages. Overall, price levels continued to increase slightly, similar to the previous Beige Book. Manufacturing firms reported modest increases for prices paid and prices received. Auto dealers reported no changes in pricing. Homebuilders continued to face tight margins and higher prices for some skilled labor. Most real estate contacts reported stable, if not rising, prices for lower priced homes, and contacts in some markets noted stable prices for higher-priced homes. Contacts from retail, restaurants, and some services indicated that commodity prices have not been a big issue this year as in the recent past. Wage pressures remain constrained, according to most contacts other than homebuilders.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District expanded at a moderate pace during the past six weeks. Manufacturing orders and production were steady or higher. The momentum seen in residential construction since the beginning of the year has slowed, but activity remains above year-ago levels. Nonresidential builders experienced a rise in the number of inquiries and backlogs. Retail sales were lackluster during May, while new motor vehicle sales posted moderate gains on a year-over-year basis. Conventional and unconventional natural gas and oil production was stable, and drilling has declined since the start of the year. Output at coal mines trended lower. Freight transport volume exceeded projections. Demand for credit increased slightly.

Hiring picked up in manufacturing and residential construction. Staffing firm representatives reported that the number of job openings and placements was fairly steady, with vacancies found primarily in healthcare and manufacturing. Wage pressures remain contained. Input and finished goods prices saw little change, apart from increases in construction materials.

Manufacturing. Reports from District factories indicated that new orders and production were largely stable or increased during the past six weeks. Companies seeing the strongest activity were suppliers to the residential construction and transportation industries. Compared to a year ago, production levels were mixed. Steel producers and service centers reported that shipping volumes were little changed. Our contacts expressed concern about downward pressure on domestic steel prices, which they attributed to rising imports. Motor vehicle production at District plants held steady during May on a month-over-month basis. Compared to a year ago, auto production rose slightly. Many of our contacts believe that demand will soften during the next couple of months, although part of the expected decline was attributed to seasonal factors. In response, there was some reduction in finished goods inventories.

Manufacturers commented that capacity utilization rates have fallen slightly but remain within their normal ranges. Capital expenditures are either on plan or slightly ahead for the fiscal year. Several companies anticipate increasing capital budgets in the upcoming fiscal year to better position themselves for expected growth opportunities. Raw material and finished goods prices were generally flat or trended lower. Steel producers who attempted to raise their prices met with limited success. Factories expanded payrolls at a modest pace, although finding qualified production and salaried personnel was difficult. Wage pressures are contained.

Real Estate. Sales of new single-family homes were down slightly in June when compared to earlier in the spring, although they remain above year-ago levels. Construction starts also fell slightly. One contractor commented that the recent decline in sales is not abnormal for this time of year. Traffic and inquiries were described as much better relative to

last year. New home contracts were found mostly in the mid- to higher-price-point categories. Demand for multifamily housing was strong. Builders were confident that the turnaround in the housing market will persist in the upcoming months. Nonetheless, they cited difficulty in obtaining financing and a lack of buildable lots as barriers to more robust growth. List prices of new homes increased by as much as 5 percent in certain markets this year due primarily to rising costs for land, building materials, and to a lesser extent, labor. Home builders have cut back on discounting. Sale prices of existing single-family homes continued to rise across the District on a year-over-year basis, but the rate of increase is somewhat lower than the national average.

Nonresidential builders have seen a small improvement in business conditions since our last report. Inquiries have picked up and backlogs are slowly rising. The strongest activity was on the commercial side, especially in distribution and warehousing. Bank financing is difficult to obtain, so many smaller projects are being funded with cash. Our contacts are hopeful that the improvement in business conditions they have recently experienced will continue at the same pace or accelerate during the remainder of this year.

We heard many comments about large price increases for building materials, especially lumber, drywall, and concrete, though the rate of increase has slowed during the past month. Home builders reported moderate hiring, especially for office personnel, while nonresidential builders limited their hiring to seasonal help. Wage pressures are contained. General contractors are concerned about the availability of qualified subcontractors if demand in the construction sector begins growing at a robust pace.

Consumer Spending. Retailers described May sales as lackluster and noted that they fell below plan. However, sales were fairly even with the same month a year ago. Some of our contacts cited poor weather conditions for holding down consumer spending. Looking ahead, third-quarter sales are expected to be modestly higher when compared to those in the second quarter. A few contacts reported that their inventories were slightly higher than desired. Vendor and shelf prices held steady. Capital expenditures were on plan for the fiscal year. Monies are allocated primarily for store improvements and expansions. No hiring is anticipated, except for staffing new stores.

Year-to-date sales of new motor vehicles showed a moderate increase during May compared to the same time period a year ago. Buyers preferred smaller, fuel-efficient vehicles; however, purchases of large pickup trucks trended higher, especially in the eastern half of the District. New vehicle inventories are rising, but a majority of dealers said that they are satisfied with their inventory positions. Our contacts are fairly optimistic about sales prospects for the remainder of the year. Dealers pointed to pent-up consumer demand and the option to lease vehicles as reasons for their optimism. Used-vehicle purchases rose during the past six weeks. Inventory is building as lease rollovers start to come in. Prices for quality used cars remain high.

Dealer investment in facility upgrades and expansions has increased as they grow more confident about the sustainability of higher sales volume. Dealers are looking to hire a small number of personnel, though some have postponed hiring decisions as they gauge the effectiveness of new technology that is being integrated into their selling model.

Banking. Demand for commercial real estate and multi family construction loans has picked up since our last report, while requests for other business loan categories were little changed. Almost all bankers reported aggressive credit-pricing pressure. Consumer credit demand rose slightly, especially for auto loans and home equity products. Residential mortgage activity remains relatively strong. Several bankers attributed a decline in refinancing to a rise in interest rates. New purchase mortgages are trending higher. No changes were made to loan-application standards. Aggregate core deposits grew at a steady pace, with a movement from CDs to demand deposits still taking place. There were a few reports about workforce reductions and shifting personnel as a means of cutting costs.

Energy. District coal production remains below year-ago levels, although the downward trend seen during the first five months of 2013 was showing signs of leveling off. Producers reported that demand from domestic utility companies is up slightly, while offshore demand is slowing (Asia) or stagnant (Europe). Spot prices for steam-coal rose slightly, whereas metallurgical coal prices were flat. The number of drilling rigs across the District has fallen significantly since the beginning of the year; however, the state of Ohio continued to issue shale gas drilling permits at a robust pace. Output from conventional and unconventional gas wells was stable during the past couple of months, while oil production picked up slightly. Well-head prices were little changed. Capital expenditures remain at targeted levels. On balance, little change was seen in production equipment and material prices. Energy payrolls and labor costs were flat.

Freight Transportation. Our contacts reported that shipping volume remains higher than expected, but the rate of growth has slowed since our last report. Freight executives are positive, but cautious about growth prospects for the near term. Of particular concern is how the new hours of service regulations (HOS) that went into effect on July 1 will play out. Our contacts believe that the primary impact of HOS will be on the availability of drivers and the ability of shipping companies to effectively schedule those drivers. Potential reductions in capacity will tend to drive up shipping costs. Prices for equipment and maintenance items were stable. Capital spending is on plan for the fiscal year. Monies are used mainly for tractor/trailer replacement and capacity expansion. The industry is still experiencing a shortage of drivers and skilled mechanics. The former may worsen under the new HOS regulations.

FIFTH DISTRICT—RICHMOND

Overview. District economic activity strengthened moderately in recent weeks. Manufacturing shipments and new orders increased. Consumer spending firmed somewhat and auto sales remained solid. Services providers also reported steady to stronger demand. Additionally, tourist bookings were up year over year. In banking, demand rose for new residential mortgage lending. Commercial and industrial lending was flat to slightly higher. Residential real estate sales and construction increased, with speculative building returning to some areas. Commercial construction was little changed and leasing was steady overall, with occasional reports of rising rental rates. The effect of continued heavy rainfall on agriculture was mixed, slowing planting or damaging some crops while bolstering others. Natural gas production increased since our last report, particularly shale gas, and coal production was steady but well below year-ago levels. In labor markets, temp hiring picked up, although many firms were reluctant to hire permanent workers. Average wage growth was flat to faster, and price changes were mixed.

Manufacturing. Manufacturers expressed cautious optimism in the weeks since our last report, as activity in that sector strengthened modestly. Shipments and new orders rose, and the average workweek increased. Despite the improved conditions, producers preferred to use cash to update technology and existing infrastructure, rather than undertake expansion. A plastics manufacturer commented that his company was purchasing new machinery in response to increased work levels, and he saw industrial confidence as being up, but still cautious. A lumber company executive said he will not hire new full-time employees until next year, but that, so far, this has been his best year since 2007. Moreover, according to a representative of several manufacturers, some firms have gone to two shifts and further growth is expected for the second half of this year as backlogs build. Even so, he described confidence as “fragile, and nobody takes it for granted.” Federal spending reductions, tax changes, and slower overseas demand affected some manufacturers. A manufacturer of packaging materials commented, “There is a light at the end of the tunnel, but it only flickers at times.” Price growth increased for raw materials and finished goods, according to our latest survey of manufacturers.

Ports. Port volumes were little changed overall in recent weeks. Lumber imports picked up, while imports of auto parts and auto assembly inputs softened slightly from very high volumes. Imports and exports of autos remained strong. Exports of containerized agricultural products rose, particularly logs and animal feed inputs, while exports of wheat sprouts declined. Energy-related exports and agricultural equipment were solid, with agricultural equipment peaking in late spring as usual, albeit somewhat below year-ago record levels. Overall, coal exports were unchanged. Port administrators expected seasonal increases in the weeks ahead for back-to-school and holiday imports.

Retail. Retail sales strengthened slightly in recent weeks, helped by big-ticket sales. A wholesaler of heavy construction equipment commented that his firm had seen significant improvement.

Additionally, a contact at a large auto and light truck dealership remarked that sales volume was strong and the market was extremely competitive. He noted that new vehicle sales were being driven by full-size pickups that are typically purchased by homebuilders and construction-related services businesses. Used car sales were exceptionally strong and some dealers had shortages of used vehicles. A report from a large department store chain said that cold and damp weather, along with the payroll tax change, had constrained sales. Retail price growth slowed since our last report.

Services. Non-retail services firms reported steady to stronger activity. Telecommunications firms, accountants, and a firm specializing in software design for clinical use reported rising revenues. Hospital consolidation remained “intense,” according to a contact in North Carolina. Non-retail prices rose more slowly in this reporting period.

Tourism picked up. Bookings rose in the Tidewater, Virginia region. Additionally, a hotel manager in western North Carolina noted that his bookings have risen compared to a year ago and that expectations were for continued year-over-year growth for the remainder of this year. A contact on the outer banks of North Carolina reported general optimism and added that cutbacks in government funding for tourist sites have led to increased fund-raising events, such as concerts. Rates were little changed.

Finance. Banking activity increased slightly since our last assessment. Demand for residential mortgages was up in most markets and bankers across the Fifth District commented that there had been a noticeable shift toward new purchases and away from refinancing. A Virginia banker proclaimed that “refinancing had died,” although a lender in South Carolina said that refinancing still made up the majority of his residential mortgage business. However, some customers no longer qualified for loan refinancing due to higher rates. Similarly, “the phone rang more often” for a Virginia banker while a lender in Maryland reported that people were waiting to see what rates would do. Demand for residential construction loans rose in South Carolina. Commercial and industrial loan demand was flat to slightly higher. There were several loans in the pipeline at a West Virginia bank, most of which were for new structures (i.e., office buildings, car showrooms, and a retirement community). However, higher interest rates caused some deals to be reevaluated and put on hold or pulled. Contacts also stated that clients were surprised at the higher rates and that businesses were trying to figure out how best to budget for them.

Real Estate. Residential real estate sales expanded. Two Washington, D.C. area agents reported that it was now routine to see multiple offers for a home, as well as escalator clauses in those contracts. Another contact in the region said that home repair and specialized construction were benefitting from strength in the housing market. Due in part to its proximity to D.C. and Baltimore, home sales in the eastern panhandle of West Virginia finally saw some improvement. In addition, home sales in western North Carolina were up, causing inventories to erode and speculative building to resume. Inventories were also low in the Charlotte region where home sales and prices had both increased. Lastly, a source on the eastern shore of Maryland stated that appraisals were below the sales price of homes in some areas.

Commercial real estate and construction markets were little changed overall in recent weeks. Demand for commercial real estate in Washington, D.C. continued to be scarce as people were “waiting on the sidelines” to see what would happen with the economy and government spending. In addition, one large business in the D.C. area sold its buildings and turned to renting space while another shifted out of large leased spaces and consolidated into buildings owned by the firm. There were conflicting reports from our North Carolina contacts about multi-family housing: one reported there was now some overbuilding while another said there was still a lot of strength in this type of housing. This latter sentiment was echoed by a report from the Tidewater area of Virginia indicating that multi-family was doing well and stalled projects were coming back on line. Contacts in other parts of the state reported that lot inventory was low or “almost nil.” Retail, office, and industrial leasing activity was steady in Virginia and West Virginia while rental rates edged up in Charlotte and Richmond.

Agriculture and Natural Resources. Recent reports on agricultural conditions were mixed. While a South Carolina farm loan banker reported that the wet weather earlier in the year “started the crop season off in a positive light,” other reports from South Carolina and Virginia indicated that the rains delayed planting and even resulted in one farmer planting soybeans and cotton instead of corn. In addition, a South Carolina contact noted that heavy rains had damaged the regional wheat crop to the extent that sprouts were unacceptable for export. A North Carolina source also noted a recent shift to cotton over corn, due to declining corn prices. Nevertheless, another source remarked that agricultural lending was “booming” and demand for wood products continued to rise.

Natural gas production—particularly shale gas—continued to increase in West Virginia. Moreover, one shale plant was less than fully staffed because of a worker shortage. Although rig counts were down nationwide, West Virginia was one of five states that recently saw an increase in rig counts. Coal production remained steady in recent weeks though well below a year ago. Coal lay-offs in southern West Virginia were expected to come later this year.

Labor Markets. Conditions in the District labor market were somewhat better since our last report. Employment rose in several industries, including home repair and construction, hotels, and medical software. In addition, a contact from a temp agency in North Carolina reported there was high demand for technology professionals, particularly for healthcare-related IT, as well as accounting, finance, and real estate. He added that contingent labor was in much greater demand than full-time employees due to uncertainty about the economy; another source said that small businesses were going out of their way to avoid the long-term commitment of permanent hiring. In contrast, a web consulting firm in Virginia and a social assistance organization in North Carolina planned to add employees. Also, a staffing agency in South Carolina reported weak demand for labor, and two electrical equipment manufacturers laid off employees. According to our latest surveys, wage growth picked up in the manufacturing sector, remained robust at non-retail establishments, and flattened at retail businesses.

SIXTH DISTRICT – ATLANTA

Summary. Reports from Sixth District business contacts indicated that economic activity expanded at a modest pace in June and early July. The outlook for the rest of the year remains optimistic for most firms.

Retailers noted mixed sales results and vehicle sales grew at a robust pace. The hospitality sector continued to experience strong demand. Most brokers and homebuilders reported increases in sales and prices, and declining home inventories. Commercial contractors cited improvement in overall demand and a slight increase in construction. Manufacturing firms indicated that activity grew, albeit at a slower rate than in our previous report. Loan demand remained stable for residential real estate, while loans for autos outside of the dealership remained constrained by competitive offers from auto manufacturers. Employment growth for the District was modest. Firms remarked that stable input prices have helped improve profit margins slightly.

Consumer Spending and Tourism. Reports from District retailers were mixed. While most merchants experienced modest growth, growth was lower than expected in some cases. Some attributed lackluster sales to weather conditions. Auto dealers continued to experience strong growth.

Travel and tourism activity continued to exceed expectations. Contacts throughout the District reported that key indicators of demand (visitation, hotel occupancy, average daily rate, and revenue per available room) and profitability were positive and steadily rising. In spite of increases in accommodation rates, demand remained strong with advanced bookings for the next three to six months increasing to levels above those from a year ago. With strong convention and group meeting activity planned for the remainder of 2013 and positive lead volume for 2014, District hospitality contacts anticipate the positive momentum of 2013 to continue in 2014.

Real Estate and Construction. District brokers continued to report that existing home sales remained ahead of last year's level were mostly ahead of expectations. However, brokers still report that inventories remain at low levels, and thereby restraining sales. Shortages were also said to be putting upward pressure on home prices. Existing home prices continued to rise on a year-over-year basis. The outlook for sales growth remained positive, with the majority of brokers anticipating sales gains over the next several months.

District homebuilders reported that new home sales and construction were ahead of year earlier levels. Recent activity was mostly in line with expectations and buyer traffic remained strong. However, builders noted that access to financing and a shortage of developed lots continued to constrain construction activity. Most contacts reported that new home inventories were below the

year earlier level and prices rose modestly. The outlook for construction and new home sales remained positive, but the outlook for growth moderated somewhat compared with our last report.

District commercial real estate contacts indicated that demand continued to improve from earlier in the year. Construction activity was described as flat to slightly up from earlier this year and was dominated by build-to-suit projects and renovations of existing space. While a wider variety of projects seems to be in the works compared with a year ago, activity was still concentrated in medical office space, certain types of retail, and apartments. Commercial brokers indicated that demand for space improved at a modest pace. Brokers reported that most markets still favored tenants; however, rate increases continued to be noted in select submarkets. The outlook among District commercial real estate contacts remained positive with further improvements expected this year.

Manufacturing and Transportation. Regional manufacturers reported expanding activity; however, the rate of growth slowed as a result of a decrease in new orders, production, and finished inventory. Contacts reported a slight decline in commodities prices and some expressed that inventories may build in some sectors as manufacturers take advantage of favorable prices. Less than half of purchasing managers expect production to be higher in the next three to six months, slightly lower than our previous report.

District port contacts cited notable year-over-year growth in container trade, autos and machinery, and bulk cargoes, including a significant increase in the exporting of natural gas. Trucking companies cited a rise in shipments of building construction materials, as well as chemicals; however, capacity remained constrained due to driver shortages. Total year-to-date railroad volumes were reported to be flat through June, but significant activity was noted for petroleum-related products and other chemicals, forest, lumber and wood products, and metallurgical coal.

Banking and Finance. Some institutions reported a pickup in mortgage loan demand attributed to improved housing markets and increasing interest rates. They also indicated that while mortgage refinancing had slowed, new purchase loan demand had increased. Demand for automobile loans declined as banks and credit unions noted they could not compete with zero percent deals from auto manufacturers.

Some bankers indicated vigorous competition for loans has led them to change loan features, such as relaxing guarantee requirements or covering a substantial chunk of closing costs. Local community bank contacts had eased up on covenants and guarantees and were willing to take more risks, particularly when a loan fit a category in which they were interested.

Some businesses were courted with offers to refinance debt with eased covenants and restrictions, while others indicated financing was still a major impediment to new construction projects and securing funding remained difficult.

Employment and Prices. Since the last report, District payrolls grew at a modest pace. Tennessee experienced moderate payroll gains in retail, trade and transportation, professional and business services, and manufacturing. Alabama continued to see hiring in hospitality services, most notably in accommodation and food services. Louisiana added jobs in construction, and education and healthcare. All District states saw payroll contractions in their government sectors, with the exception of Mississippi, which showed a mild gain at the state government level.

In general, most input costs remained relatively stable, helping to support slightly stronger profit margins in the face of improving, but still below pre-recession sales levels. Some notable exceptions were costs related to construction materials such as lumber, concrete, and drywall, which increased for a number of contacts. The Atlanta Fed's Business Inflation Expectations survey showed year-ahead unit cost expectations ticking down from 2 to 1.8 percent in June, marking the lowest reading since January.

Natural Resources and Agriculture. Regional oil and gas activity remained robust. Significant capital investment continued in liquefied natural gas (LNG) facilities along the Gulf Coast. Expansion projects on existing refineries were noted as moving along, marking the first time such investments have been made in twenty years. There were some comments that high costs to transport oil and gas by rail, barge, and truck were exerting upward pressure on prices for refined products. Contacts also indicated that capacity for oil and natural gas products remained abundant and that domestic demand for energy products was beginning to rise for the season.

Since our last report, soil throughout much of the District improved to more favorable, drier conditions. Pasture conditions improved as well. Monthly prices paid to farmers were up for cotton, soybeans, corn for grain, rice, citrus, hogs, and broilers. During this same period, beef prices were down slightly, but still moderately higher than this time last year.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District expanded at a moderate pace in June, and contacts remained cautiously optimistic about growth prospects in the second half of the year. Growth in consumer and business spending picked up. Manufacturing production increased as did construction, led by continued improvement in the residential sector. Credit conditions tightened moderately. Cost pressures were again mild, and wage pressures remained moderate. Crop conditions improved, with the crop ending the period in better shape than a year ago.

Consumer spending. Growth in consumer spending increased in June. Contacts attributed the pick-up in the pace of growth to recent gains in consumer confidence, an increase in auto dealer incentives and other retail promotions, and the rebounding housing market. Auto sales increased at a faster rate than non-auto retail sales. Auto dealers reported strong sales of both pick-up trucks and small passenger cars, as well as an increase in activity in the leasing market. For non-auto retail sales, contacts noted that high-end retailers and discount stores both continued to fare better than middle market retailers.

Business spending. Growth in business spending also picked up in June. Spending on equipment and software increased slightly, as did spending on structures. A few contacts reported an increase in merger and acquisitions activity, but noted that deals were being delayed by uncertainty surrounding the economic outlook. Inventory investment was also impacted by elevated uncertainty. Retail contacts reported that inventories remained tight, as many retailers were planning to wait until after the back-to-school season to re-assess the state of demand and before placing the bulk of their holiday orders. Manufacturers were also limiting inventory investment, with a contact noting that steel service centers were liquidating inventories given weak demand. Labor market conditions continued to improve slowly. Demand for skilled workers remained relatively stronger, particularly for healthcare, information technology, engineering, and other technical occupations. Manufacturing contacts, however, were generally more cautious in their hiring plans, with some layoffs reported in industries where activity has slowed considerably in recent months. In addition, several retailers reported that the Affordable Care Act would lead to more part-time and temporary versus full-time hiring.

Construction/real estate. Construction and real estate activity continued to increase gradually in June. Demand for residential construction grew steadily, as multifamily construction remained strong and single-family construction continued to improve. A homebuilder noted that

while new single-family development remained limited, improvement of vacant lots in existing developments was increasing. Activity in the residential real estate market continued to increase as well, with home sales, prices, and rents rising. Nonresidential construction grew at a modest pace, driven in large part by the ongoing expansion of the auto industry. However, a contact noted that planned upgrades to auto supplier facilities were nearly complete; and that with auto production getting back to pre-recession levels, any additional capacity expansion was likely to be incremental. Commercial real estate conditions continued to improve as rents rose slowly and vacancies fell.

Manufacturing. Manufacturing production increased in June. The auto industry continued to be a source of strength, with the traditional summer shut-down period scaled back this year to meet the increase in customer demand. Vehicle demand was strong across all sectors, and auto industry contacts reported growing confidence that activity will remain robust in the second half of the year. Steel production again grew at a moderate pace, and specialty metal manufacturers reported a modest improvement in new orders and order backlogs. In contrast, demand for heavy equipment remained soft, although contacts anticipated a slight improvement in the remaining months of the year. Mining activity continued to weaken, and contacts expressed concern over the effect environmental regulations would have on the coal mining industry moving forward. Demand for construction equipment picked up some as the housing market continued to improve.

Banking/finance. Credit conditions tightened moderately over the reporting period. Volatility increased across a number of asset classes and corporate borrowing costs rose. Financial market participants noted lower activity in fixed income markets, particularly the high-yield corporate debt market. Banking contacts cited less demand among their larger clients for leveraged financing, and continued uneven growth in the middle market driven mostly by refinancing of existing debt. Credit standards remained roughly unchanged, although contacts reported additional downward pressure on pricing. In contrast, consumer loan demand increased over the reporting period, particularly for auto lending. With the recent increase in mortgage rates, mortgage refinancing slowed, but contacts again noted an increase in new mortgage originations.

Prices/costs. Cost pressures remained mild in June. Commodity prices continued to trend lower, although some contacts noted increases in the prices paid for concrete, drywall, metals such as steel and copper, and energy goods and services. Retailers again reported mostly modest increases in wholesale prices; and, overall, pass-through to downstream prices was limited. Wage pressures remained moderate, although many contacts again noted rising healthcare and other benefit costs. Some of these higher costs were being passed on to employees.

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Agriculture. Crop conditions improved over the course of the reporting period, with the crop ending the period in better shape than a year ago. District farmers managed to get their crops in the ground despite additional planting delays caused by the unseasonably wet weather. Only a small percentage of acres will not grow a crop, where water pooled in low-lying areas and replanting was not possible. Fruit crops could produce record yields this year, in sharp contrast with the large losses seen a year ago. With stocks of corn and soybeans expected to remain at very low levels until the fall harvest, corn and soybean prices moved higher. The increase in feed costs negatively affected livestock operations, and contacts noted that it would lead to careful management of feed purchases until anticipated declines in crop prices are likely to materialize following a potentially record fall harvest. The first cutting of hay was mostly complete and was much better than last year. Supported by rejuvenated pastures, milk output also increased. Milk prices were roughly unchanged during the reporting period, while hog prices surged, and cattle prices were lower.

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Eighth District - St. Louis

Summary

The economy of the Eighth District has expanded at a moderate pace since our previous report. Recent reports of planned activity in manufacturing and services have been positive. Residential real estate market conditions have continued to improve, and commercial real estate markets have also improved. Total lending at a sample of small and mid-sized District banks increased from mid-March to mid-June.

Manufacturing and Other Business Activity

Reports of manufacturing activity plans have been positive since our previous report. Several manufacturing firms reported significant plans to add workers, expand operations, or open new facilities in the Eighth District, while a smaller number of manufacturers reported plans to reduce their employee count. Firms in automobile, automobile parts, lumber, bakery, petroleum refining, and firearm manufacturing plan to hire new employees and expand operations in the Eighth District. In contrast, firms that manufacture boats, housewares, turbines, and medical equipment reported plans to lay off workers in the District.

Reports of plans in the District's service sector have also been positive since the previous report. Firms in television, prescription benefits management, electronics retail, residential care, utility, consulting, and automobile sales services reported new hiring and expansion plans in District states. In contrast, firms in transportation, financial, food wholesale, healthcare, and security services plan to lay-off employees. Reports from retail contacts were generally positive. There were more new retail store openings than store closings. However, many retail contacts noted that year-to-date sales were below expectations, and contacts were cautiously optimistic about sales for the remainder of 2013. Finally, sales reports from auto dealers were generally

positive, citing increased sales for new and used cars as well as plans to open new dealership locations.

Real Estate and Construction

Home sales have continued to increase throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2012, May 2013 year-to-date home sales were up 17 percent in Louisville, 24 percent in Little Rock, 8 percent in Memphis, and 14 percent in St. Louis. May 2013 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2012. Permits increased 18 percent in Louisville, 23 percent in Memphis, and 18 percent in St. Louis. Permits decreased 3 percent in Little Rock.

Commercial and industrial real estate market conditions have continued to improve moderately throughout most of the District. A contact in Memphis reported that commercial and industrial real estate activity continued to strengthen. A contact in Louisville noted a strong demand in industrial real estate. Contacts in St. Louis reported that downtown office leasing appeared to bottom out compared with last year. A contact in northwest Arkansas also reported that commercial real estate activity was moving in the right direction. Commercial and industrial construction activity continued to improve throughout most of the District. A contact in south central Kentucky reported several commercial construction plans in Bowling Green, while a contact in central Arkansas noted a few retail construction projects. In contrast, contacts in Memphis and Louisville commented that industrial construction activity was low.

Banking and Finance

Total loans outstanding at a sample of small and midsized District banks increased 1.8 percent from mid-March to mid-June. Real estate lending, which accounts for 73.4 percent of

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total loans, increased 0.9 percent. Commercial and industrial loans, accounting for 15.7 percent of total loans, increased 0.7 percent. Loans to individuals, accounting for 4.7 percent of total loans, increased 1.9 percent. All other loans, accounting for 6.2 percent of total loans, increased 15.3 percent. During this period, total deposits at these banks decreased 0.8 percent.

Agriculture and Natural Resources

At the end of June, the condition of over 90 percent of the cotton, corn, soybeans, sorghum, and rice crops was rated as fair or better in all the District states. Furthermore, at least 70 percent of total pastureland across the District states was rated in good or excellent condition. The winter wheat harvest was behind its 5-year average and behind the progress made by the same time last year. Year-to-date coal production for the District states at the end of May was lower than the same period last year because of lackluster production in Illinois, Missouri, Tennessee, and Indiana. In contrast, year-to-date coal production in Arkansas was 55 percent higher than the same period last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy showed signs of moderate growth. Increased activity was noted in consumer spending, professional services, manufacturing and energy. Tourism-related activities slowed in May and June in some areas, but tourism businesses were optimistic for the summer season. Commercial construction and real estate grew moderately fast, while residential construction and real estate grew at a robust pace. The mining sector was sluggish, and agriculture decreased. Labor markets continued to tighten slightly, and wage increases were moderate. Price increases were subdued since the last report.

Consumer Spending and Tourism

Consumer spending increased modestly. A Minnesota-based bar and restaurant chain noted that sales were up moderately during May and June compared with a year ago.

A mall manager in North Dakota reported that sales increased modestly while traffic decreased slightly during late May and June; apparel sales were particularly slow.

Meanwhile, a Minnesota-based apparel retailer recently reported strong gains in same-store sales. Minnesota vehicle sales were up from a year ago during May and June with truck sales particularly strong, according to a representative of an auto dealers association.

While wet and cool weather slowed May and June tourism-related activities in some areas, tourism businesses were optimistic for the summer season. New boat registrations in Minnesota were down 17 percent in 2013 compared with the same time period in 2012. Nevertheless, a Minnesota state tourism office survey of lodging and camping businesses in the state showed that 38 percent expect higher occupancy this summer with 46 percent expecting level occupancy. After a slow start to the summer season, lodging reservations and traffic to tourism destinations in the Upper Peninsula of Michigan have picked up. In Montana, lodging and visits to attractions during the first part of summer were up from last year.

Construction and Real Estate

Commercial construction activity continued to increase since the last report. The value of June commercial permits in Billings, Mont., increased significantly from last year, while hotel building rose to \$6 million in June compared with zero in the first six months of 2012. A manager of an industrial real estate company noted increased interest in building warehouses on speculation because some purchase prices for existing structures are higher than the cost of building new. Several national retailers are opening new stores this year in the Minneapolis-St. Paul area. However, in Sioux Falls, S.D., the value of

June permits was down from a year ago. Residential construction increased at a fast pace over past year. The value of June single-family residential building permits in Billings was up 28 percent from last year; multifamily building also increased significantly. The value of June residential permits in the Minneapolis-St. Paul area was up by 19 percent from June of 2012, while it fell in Sioux Falls.

Activity in commercial real estate markets increased since the last report. The University of St. Thomas semiannual survey (May) of 50 Minneapolis-St. Paul commercial real estate leaders noted higher rents, occupancy, land prices and building material costs. Minneapolis-St. Paul area second quarter vacancy rates dropped from the first quarter for retail and industrial space, according to a research firm. Residential real estate market activity increased at a robust pace. May home sales were up 13 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 22 percent, and median sale prices rose 15 percent. In the Sioux Falls area, June home sales were up 16 percent, inventory was down 15 percent and the median sale price increased 5 percent relative to a year earlier.

Services

Activity at professional business services firms increased since the last report. In Minneapolis, a technology consulting firm reported a recent expansion and an intellectual property protection firm is expanding. A lawyer at a Minnesota-based firm noted an uptick in corporate legal work.

Manufacturing

The District manufacturing sector continued to expand since the last report. A June survey of purchasing managers by Creighton University (Omaha, Neb.) found that more manufacturing firms increased activity in Minnesota and the Dakotas than in previous months. An electronic equipment producer is moving forward on a plant in Minnesota. Another Minnesota firm that makes cable for utilities and telecommunications companies reported strong sales during the past few months. Several contacts in the metal forming business reported that they were having very strong years, with a few reporting their best year ever. A firm that supplies capital equipment to that industry is seeing strong demand; the auto sector was a particular source of strength.

Energy and Mining

Activity in the energy sector increased moderately, while mining activity was sluggish. Late-June oil and gas exploration activity increased slightly in North Dakota from the last

report and was flat in Montana. A Minnesota utility announced plans for \$1.8 billion in upgrades to existing nuclear power plants. Recent output at District iron ore mines was below year-earlier levels. However, development will resume on a stalled copper-nickel mine project in the Upper Peninsula after the mine was sold to another company.

Agriculture

The agricultural sector weakened since the last report. District farmers made progress after a late spring, but remain behind the five-year average for corn and soybean plantings due to recent heavy rains. In some areas, farmers are expected to switch from corn to soybeans due to the weather. Prices increased from a year earlier for wheat, corn, soybeans, chickens, milk, hogs, cattle and eggs; prices fell for turkeys and dry beans. The late plantings, along with concerns about warmer and drier weather later this summer, caused the USDA to increase its corn price forecast slightly, though prices are still expected to decrease from current levels.

Employment, Wages and Prices

Labor markets continued to tighten slightly. In North Dakota, a health care administrative services firm plans to hire 375 new employees by September. A wind tower manufacturer recently announced plans to hire 250 workers in South Dakota when site construction is completed next year. A pipeline company plans to add 110 jobs in Minnesota. May Minnesota unemployment insurance claims were down 2 percent from a year earlier; data in recent months have averaged close to prerecession levels. However, a cellular phone company recently announced plans to lay off 50 employees at a plant in North Dakota. A software distributor announced plans to move its corporate headquarters out of Minnesota, eliminating 150 jobs in the state. In May, federal government employment in Minnesota was at its lowest level in more than 20 years, while state government employment was at its lowest level since January 2008.

Wage increases were moderate. According to a recent St. Cloud (Minn.) Area Quarterly Business Report, 52 percent of respondents expect to increase compensation over the next six months, while 45 percent expect no change. In last year's survey, 38 percent expected to increase compensation, while 58 percent expected no change.

Price increases were subdued since the last report. A Minnesota-based food producer noted that it expects input cost inflation of 3 percent this year. Metals prices decreased over the past month. Minnesota gasoline prices decreased 90 cents per gallon from a spike in prices at the end of May; recent prices were about the same as a year ago.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy grew modestly in June, and expectations for future activity improved slightly. Tourism and restaurant sales edged up, while retail and automobile sales were steady since the last survey. District manufacturers reported slowdowns in production and shipments, principally due to regional storms over the survey period. Residential real estate activity continued to be strong, while commercial real estate activity marginally increased. Overall banking conditions improved slightly, with marginally higher loan demand and generally better loan quality. Agricultural growing conditions improved somewhat with recent rains, which led to a drop in expected harvest prices for corn and soybeans. District drilling and mining activity was flat, though energy contacts expected stronger oil and natural gas drilling in coming months. District contacts from most sectors reported little change in prices for food, building supplies and raw materials. Labor shortages ticked up, but wage pressures remained modest.

Consumer Spending. Consumer spending edged up in June, with increased tourism and restaurant spending, but little change in automobile and retail sales. Contacts in most sectors expected consumer spending to improve over the next three months. District retail sales were flat over the survey period. Purchases of large ticket items, such as appliances, slowed relative to lower-priced goods. Tourism activity and hotel occupancy rates both rose relative to the last survey period, but were similar to levels a year ago. Average daily room rates were unchanged and were expected to remain the same in the coming months. Restaurant sales ticked up since the last survey, and respondents expected similar levels of activity over the next few months. Automobile dealers reported sales were steady and above year-ago levels, but inventories continued to increase. The majority of dealers still expected faster sales growth in the coming months.

Manufacturing and Other Business Activity. Manufacturing activity contracted slightly in June, while high-tech activity rose and transportation was flat. A number of factories reported production delays and shipment interruptions due to recent regional storms and flooding. Activity was especially weak among producers of food and machinery. However, expectations for future factory activity continued to increase. High-tech service firms reported that sales improved during the survey period, but activity was expected to be flat over the next three months. Transportation activity and capital expenditures were unchanged in June compared

to the previous survey period. Transportation firms reported difficulty finding qualified drivers, and some anticipated increased costs due to compliance with the Affordable Care Act.

Real Estate and Construction. Residential real estate activity remained robust, while commercial real estate activity ticked up in June. Residential real estate sales continued to rise. Prices continued on an upward trend while inventories were somewhat lower compared to the prior survey period. Contacts in some District markets reported that low inventories slowed sales and put upward pressure on prices. Views on the likely impact of rising interest rates were mixed. Some contacts expected that recent increases in mortgage rates would encourage more people to buy before rates increased further, while others anticipated a reduction in activity. Recent storm damage to homes in some parts of the District was also expected to add to the demand for housing in those areas. Residential builders reported solid construction activity, with expectations for further modest growth. Commercial real estate activity ticked up during the past month, as construction activity continued to strengthen. Sales prices held steady, and vacancy rates fell further in some areas. Contacts expected stronger activity in coming months, but several noted uncertainty around rising interest rates.

Banking. Bankers reported slightly stronger overall loan demand, moderately improved loan quality, and slightly lower deposit levels. Respondents reported stable demand for commercial real estate and consumer installment loans. Demand for commercial and industrial loans increased, while demand for residential real estate loans declined. Nearly all bankers reported slight improvements in loan quality compared to a year ago. They also expected loan quality to marginally improve over the next six months. Credit standards remained unchanged in all major loan categories and respondents reported slightly lower deposits.

Agriculture. Agricultural production expectations improved somewhat with recent rains, but varied regionally. Summer storms eased dry conditions in eastern parts of the District, though drought persisted in western regions. The winter wheat harvest was underway or complete in Oklahoma and Kansas with highly variable yields depending on the extent of drought and freeze damage. Despite expectations of a poor wheat harvest in some areas, wheat prices fell since the last survey period. The corn and soybean crops, however, were rated in mostly good or better condition with the improved soil moisture. Although corn and soybean prices remained historically high, improved growing conditions led to a drop in expected harvest prices for both crops. Feedlot operators struggled with high input costs and falling cattle prices, but losses narrowed for hog producers after a rebound in hog prices. Cropland values moved higher but

were expected to hold steady during the growing season.

Energy. District energy activity held steady over the survey period. Overall, drilling activity remained stable for both oil and natural gas in June. With oil prices elevated and natural gas prices low, drilling activity was expected to continue to shift away from natural gas to oil. However, energy contacts expected oil and natural gas drilling to accelerate over the next few months. Wyoming coal production was unchanged in June, but demand has weakened over the past year. Ethanol production continued to edge higher, and inventories trended down as profitability in the sector improved modestly.

Wages and Prices. Wage pressures remained low during June, and prices were generally unchanged during the survey period. The percentage of firms reporting labor shortages increased slightly, but recent wage increases remained modest. Firms reported strong demand for long haul drivers, delivery drivers, skilled auto technicians and hotel housekeeping staff. Retail prices were steady during June, and retailers did not expect to raise prices over the next three months. Menu prices and food costs were flat during the survey period. Food costs were expected to rise over the next three months, but most restaurants did not anticipate passing the increases through to consumers. Raw material prices for manufacturers were unchanged in June, but expectations did move up moderately. Finished goods prices increased slightly, but manufacturers projected future finished goods prices would be lower. Construction supply firms and builders reported that prices for construction materials were unchanged and neither expected prices to rise over the next three months. Similarly, transportation firms responded that input prices were flat.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy generally expanded at a slightly stronger pace over the past six weeks than during the previous reporting period. Manufacturing activity increased somewhat overall, with stronger reports from metals and petrochemical producers. However, retail sales were flat after rising in the previous six weeks, and auto sales softened slightly. Nonfinancial services firms noted a continued rise in activity, and demand for accounting services grew at a stronger pace. The housing sector continued to improve, with a rise in new construction. Office and industrial leasing activity remained strong. Financial institutions noted growth in loan demand was stronger than six weeks ago, and energy activity remained at high levels. Drought continued to dampen the agricultural sector. Prices held steady at most Eleventh District reporting firms, and employment levels were flat overall with scattered reports of hiring.

Prices Most responding firms said prices were stable, although there were some reports of increases. Airline ticket prices rose slightly because of summer demand, and transportation service firms expect shipping rates to increase due to a recent upturn in jet fuel prices. Home prices rose rapidly as demand continued to outstrip supply. Financial institutions reported a notable rise in mortgage rates. Accounting contacts said billing rates stabilized after earlier increases were successfully implemented. Retail prices were unchanged since the last report.

Oil prices rose slightly over the reporting period. Natural gas prices fell below \$4 per mcf. Gasoline prices edged down and diesel prices increased.

Labor Market Employment held steady at most responding firms, although there were more reports of hiring than at the time of the last report. Nominal employment increases were reported by retailers, and hiring was noted by some primary metals and cement manufacturers. Accounting and legal firms continued to add workers in selected business areas. A railroad contact reported employment growth, but the hiring was concentrated outside the Eleventh District. Difficulty finding qualified workers became more widespread, with scattered reports among accounting, finance, single-family construction, auto sales, and primary metals manufacturing firms, as well as from retailers in the Eagle Ford Shale area.

Wage pressures remained mostly subdued, although increased compensation was reported in accounting and legal services.

Manufacturing Manufacturing activity improved slightly over the reporting period. Construction-related manufacturers said demand was flat or up, and a cement producer noted very strong demand from residential construction, allowing the company to choose which projects to take on. Outlooks were more optimistic than in prior periods. Primary metals manufacturers said demand held steady at strong levels, although there wasn't much enthusiasm regarding the remainder of the year. An

exception was commercial construction-related demand, which is expected to pick up. Fabricated metals firms noted improved demand and positive outlooks.

High tech orders and production were flat to slightly up since the last report. Semiconductor manufacturers reported some improvement in demand for memory equipment but weakness for logic devices. Demand is expected to be flat in the second half of the year, although there was increased concern that orders may weaken.

Paper manufacturers said demand was less volatile than earlier in the year, and business is expected to stay roughly at current levels in the near-term. Food producers said demand held steady and outlooks remained positive.

Transportation manufacturing contacts reported steady or slightly increased demand, with business generally improved from a year ago. Most firms expect strong demand through year end.

Petrochemical producers noted some pickup in activity since the last report, although most markets were stable. Contacts remained positive in their domestic outlooks, but global weakness was weighing on the overall picture. Refiners said operating rates and margins were up over the reporting period.

Retail Sales Retail sales volumes held steady over the reporting period and were up from a year ago. Outlooks for the rest of the year were positive, with growth expected to continue at about the same pace as in the first half.

Automobile sales were slightly softer than six weeks ago but remained strong. Demand was up year over year. Selling prices held steady at very competitive levels over the reporting period. Outlooks for the third quarter were optimistic, and contacts expect the rest of 2013 to be strong. However, there was continued concern about rising costs, particularly from the Affordable Care Act.

Nonfinancial Services Most nonfinancial services firms noted increased demand since the last report, although staffing services contacts offered mixed reports: high-level IT workers and engineering project managers were in high demand, while demand weakened for lower-skilled positions. One staffing services firm saw more placements at the end of the quarter than usual. Accounting firms reported a strong increase in demand since the last Beige Book, led by transactions work. There was a good backlog of work, so contacts are expecting a strong third quarter. Legal firms noted modest demand growth, but work was down year-over-year on a per-lawyer basis. Real estate work continued to rise, although lawyers became somewhat concerned about interest rate risk. Contacts noted a lack of litigation work, and demand for energy work experienced a little softness although it remained strong. Firms expect to see improvement on a year-over-year basis in the fourth quarter.

Transportation service firms said cargo and container volumes increased over the reporting period, except for air cargo, which held steady. Railroad contacts reported a slight increase in overall

volumes, with notable increases in motor vehicles and crushed stone. Container volumes were up strongly in May, and retail trade continued to lead the growth in small parcel shipments, which increased in May for the third consecutive month. Outlooks were generally less positive than at the time of the last report.

Airline contacts noted a seasonal increase in passenger demand over the past six weeks, with demand roughly in line with year-ago levels. Firms expect demand to slow as the leisure travel period ends. One contact expects 2013 to be about the same or slightly better than 2012, while another has an uncertain outlook.

Construction and Real Estate Activity in the housing sector continued to grow at a strong pace over the reporting period. Single-family home sales continued to outpace supply, leading to very low inventories and rapid price increases. Building activity picked up but was not yet able to meet demand in the major metro areas. Slightly higher mortgage rates are not expected to derail demand, according to most contacts. Apartment demand remained at high levels. Apartment construction rose in the major metros, where occupancies were above 90 percent.

Leasing activity for office and industrial space was strong over the past six weeks, particularly in Houston and Dallas. Construction activity picked up in both Houston and Dallas, with numerous office and industrial projects underway. Contacts noted that the recent increase in interest rates has caused concern in the commercial investment markets, although the impact has been minimal so far

Financial Services Financial institutions experienced moderate growth in loan demand. Commercial real estate and transactions lending increased solidly, especially in oil and gas areas around the Eagle Ford Shale and West Texas. Demand for auto loans grew strongly. Loan quality was good and continued to improve, and borrowers were still paying down debt rapidly. Loan pricing remained extremely competitive, and community banks were often outbid by regional banks. Mortgage rates rose in June. Deposits and deposit rates were flat to slightly down. The outlook for loan demand is optimistic, with a robust pipeline for mortgages.

Energy Energy activity was little changed at high levels. Global demand held steady, although there was some weakness from Mexico and Canada. Respondents expect improvement in energy activity in the second half of the year, due in part to anticipated increases in rig activity and production from the Gulf of Mexico.

Agriculture Much of the Eleventh District remained in severe drought, with conditions little changed from the last reporting period. Row crop farmers completed planting, and crop conditions were mostly fair to good, according to respondents. The wheat harvest continued, but production was sharply reduced as a very large share of the acres planted was abandoned because of drought and freeze damage. Livestock feedlots and meat processors continued to suffer greatly from high feed costs and a shrinking cattle herd.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of late May through early July. Price inflation was minimal for most final goods and services, and upward wage pressures were mostly muted. Retail sales of goods grew modestly overall, although demand for business and consumer services was mixed. District manufacturing activity improved. Production and sales of agricultural items expanded. Demand for housing strengthened, and commercial real estate activity trended up further. Contacts from financial institutions reported increased overall loan demand.

Prices and Wages

Price inflation was minimal for most final goods and services. Food industry contacts noted price increases for some protein items, including fish, poultry, and beef. Reports from health-care organizations mentioned that the pace of increases in insurance premiums has slowed. Competitive industry pressures constrained fees for legal and accounting services. Driven by demand, prices of some construction inputs, such as logs, edged up further.

Contacts reported that upward wage pressures were muted overall. Slack in the labor market held back wage gains in most sectors, occupations, and regions. However, firms in various industries continued to compete vigorously for a limited pool of qualified workers to fill certain technical positions, spurring significant wage growth for occupations such as software developers.

Retail Trade and Services

Retail sales grew modestly. Grocery and apparel retailers noted modest sales growth at retail store locations and relatively strong sales growth online. The retail grocery industry in particular appears to be shifting away from traditional large stores and towards e-commerce. Most contacts' outlook for consumer spending improved slightly since the prior reporting period. Contacts noted that an increase in demand for new devices has spurred some technology firms to expand their medium-term hiring plans. Suppliers of food and beverage products noted improved conditions, although sales of selected discretionary items, such as pet supplies, were a bit soft. As home purchases have increased, so has

spending on housing-related products, such as furniture. New and used automobile sales were robust, and some dealers expanded their inventories in anticipation of a further pickup in summer sales.

Demand for business and consumer services remained mixed. Robust activity in Hawaii supported the District's travel and tourism sector, although there is some concern that the flow of international visitors could subside in coming months due to weakness in the global economy. After slipping early in the year, travel and tourist activity in Southern California appeared to pick up somewhat toward the end of the second quarter. However, tourist activity in Las Vegas remained soft through the first half of 2013. Demand for elective health-care services stayed relatively weak, while demand for other discretionary services, such as restaurant dining, appeared to strengthen.

Manufacturing

District manufacturing activity grew overall in the reporting period of late May through early July. Although demand was weak for some electronic components, contacts indicated substantial increases in new orders for semiconductors. Led by launches of innovative products, demand for pharmaceuticals gained further. Wood product manufacturers appeared to ramp up output to levels that exceeded demand in recent weeks. As such, firms are expected to pare back production plans for the second half of the year. Demand for steel products used primarily in nonresidential construction continued to increase. Steel producers reported that capacity utilization ticked up a bit further, and reports of intensified energy usage across multiple goods-producing sectors in the Pacific Northwest implied improved capacity utilization in the region.

Agriculture and Resource-related Industries

Agricultural sales and production activity expanded. Demand was strong for most crop and livestock products. However, some contacts expressed concern about the lack of availability of manual laborers. Insufficient water also was a concern in parts of the District, with this year's rain and snow pack levels running well below seasonal norms. Contacts from the oil and gas industry faced challenges finding qualified geologists, geophysicists, and drillers to fill open positions. Inventories of natural gas rose further, and demand for gasoline edged up. Reports from the utilities industry indicated that business

demand for electricity from wood products and aerospace firms has risen robustly, although overall demand growth was more modest.

Real Estate and Construction

Demand for housing strengthened substantially, and commercial real estate activity continued to trend up in most areas. Both sales transactions and house prices climbed further in many District cities. The pace of housing starts exceeded the expectations of some contacts. In some areas, the supply of homes for sale remained low, and some properties have received multiple offers from prospective buyers. Construction of multifamily residential projects increased on balance. Commercial real estate activity expanded rapidly in some major metropolitan areas, even though construction of publicly funded commercial projects has slowed in some regions due to funding constraints from state and local governments.

Financial Institutions

Reports from financial institutions indicated that loan demand continued to increase. Contacts noted an uptick in applicants seeking residential construction loans and commercial office building mortgages. In line with reports of an improved outlook for business investment, banking contacts indicated that some firms have recently expanded their borrowing in order to invest in long-deferred expansion and capital improvement plans. Although banking contacts highlighted generally stiff competition for well-qualified business borrowers, they also noted more lending opportunities. However, hiring plans were mixed, with some financial institutions expecting to expand their payrolls significantly and others mentioning possible layoffs. In the District's Internet and digital media sectors, mergers and acquisitions activity stepped up in recent months. However, the pace of initial public offerings remained slow, and both venture capital and private equity activity were relatively weak.