

For use at 2:00 p.m., E.D.T.
Wednesday
September 4, 2013

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

August 2013

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

August 2013

TABLE OF CONTENTS

Summary	i
First District - Boston	I-1
Second District - New York	II-1
Third District - Philadelphia	III-1
Fourth District - Cleveland	IV-1
Fifth District - Richmond	V-1
Sixth District - Atlanta	VI-1
Seventh District - Chicago	VII-1
Eighth District - St. Louis	VIII-1
Ninth District - Minneapolis	IX-1
Tenth District - Kansas City	X-1
Eleventh District - Dallas	XI-1
Twelfth District - San Francisco	XII-1

Summary*

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest to moderate pace during the reporting period of early July through late August. Eight Districts characterized growth as moderate; of the remaining four, Boston, Atlanta, and San Francisco reported modest growth, and Chicago indicated activity had improved. Consumer spending rose in most Districts, reflecting, in part, strong demand for automobiles and housing-related goods. Activity in the travel and tourism sector expanded in most areas. Demand for nonfinancial services, including professional and transportation services, increased slightly on net. Manufacturing activity expanded modestly. Residential real estate activity increased moderately in most Districts, and demand for nonresidential real estate gained overall. Lending activity was mixed. Lending standards were largely unchanged, while credit quality improved. Demand for agricultural products was strong during the reporting period, but growing conditions and production in some areas were somewhat weak as a consequence of extreme weather. Demand for natural resource products was stable or up slightly, and extraction increased in anticipation of further demand growth.

For most occupations and industries, hiring held steady or increased modestly relative to the prior reporting period. Upward price pressures remained subdued, and prices increased slightly during the reporting period. Wage pressures continued to be modest overall.

Consumer Spending and Tourism

Reports indicated that consumer spending rose in most Districts. A few Districts mentioned that back-to-school sales contributed to overall consumer spending growth. Districts reported retail sales generally grew moderately in Boston, Kansas City, and Dallas; sales were mixed in New York; and sales grew more modestly in Philadelphia, Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco. Cleveland noted that sales came in below many retailers' expectations, and Richmond indicated that sales revenues weakened. Boston noted that consumer confidence improved, while New York reported that it retreated a bit. According to reports from Boston, some retailers experienced robust demand gains, with "year-over-year comparable store sales increases between 4 and 5 percent." Many Districts noted strong demand for home furnishing and home improvement items. However, reports from several Districts indicated that consumers remained cautious in their purchases and highly price-sensitive. For example,

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

Philadelphia observed that consumers engaged in “price-shopping,” as “sales of children’s apparel were stronger at outlets than at traditional malls.”

Attractive financing conditions and pent-up demand supported a robust pace of automobile sales in most Districts. New York noted that sales of high-end brands were especially robust. Richmond reported that one dealership had its best sales month ever, and sales at another dealership doubled relative to twelve months earlier. Used vehicle sales were strong in Chicago, Kansas City, and San Francisco but a bit soft in New York. New car inventories rose or remained high in Cleveland and San Francisco, but dealers were generally satisfied with their inventory positions; by contrast, Minneapolis reported sales were constrained at some dealerships due to a lack of inventory. Reports from dealerships across the nation were optimistic about demand growth for new and used automobiles for the remainder of the year.

Many Districts pointed to solid gains or high levels of travel and tourist activity, with pickups evident in both the business and leisure segments. Travel and tourism activity expanded overall in the Boston, Philadelphia, Richmond, Atlanta, Minneapolis, and San Francisco Districts. Relative to the same period a year earlier, Richmond and Minneapolis reported that the number of camping permits and visitors at state and national parks in their Districts increased substantially. New York reported that business at Broadway theaters picked up since the previous reporting period, but Boston highlighted low attendance at some museums. New York and Kansas City both reported that some hotels experienced slightly lower occupancy rates, which may be a result of cutbacks in government travel. A few Districts indicated that business travel activity had also expanded.

Nonfinancial Services

Demand for nonfinancial services improved modestly overall since the previous Beige Book. Adjusting for seasonal fluctuations, providers of various professional and business services such as accounting, consulting, information, transportation, and legal services generally expanded their activities according to reports from Philadelphia, Richmond, St. Louis, Minneapolis, and Dallas. Providers of staffing services in the Boston and New York Districts reported improved business conditions. Several Districts noted increased demand at restaurants, although San Francisco was an exception, with reports from parts of the District indicating that demand had eased. Health-care organizations in the Richmond, St. Louis, and San Francisco Districts reported soft demand for various health-care services. Boston noted that sales of technology services to businesses and consumers were a bit weaker than expected, and reports from St. Louis indicated that some information technology firms may downsize their workforces. Cleveland indicated that ground cargo volumes were strong; Dallas reported an increase in railroad volumes but a decline in small parcel volumes; and Atlanta observed a decrease in overall trucking

volumes. Both Cleveland and Atlanta noted a short supply of truck drivers as a consequence of new hours-of-service regulations. Air freight tonnage ran slightly above year-ago levels for the Atlanta District but was unchanged over the past six weeks for Dallas.

Manufacturing

Manufacturing activity expanded modestly during the reporting period. Kansas City noted a slight contraction in the previous reporting period but indicated that manufacturing activity had expanded moderately in recent weeks. Cleveland and Minneapolis also reported a moderate expansion, although Minneapolis specified that the pace of growth was uneven across District states. Atlanta noted a decrease in the pace of growth as indicated by modest decreases in new orders and production. Several Districts, including Philadelphia, Richmond, Atlanta, Chicago, Kansas City, and San Francisco, expressed that demand for inputs related to autos, housing, and infrastructure were strong. Chicago highlighted the auto industry as a main source of strength for that District's overall manufacturing sector, and contacts there expect demand for heavy and medium trucks to ratchet up further and to support growth in overall manufacturing for the remainder of the year. By contrast, Cleveland was the only District to report that auto production activity declined, although reports specified that it was a normal seasonal pattern and sales were up relative to twelve months earlier. In the Richmond District, a lumber company purchased new equipment to expand its production; and in Chicago, demand for construction equipment and materials continued to strengthen. Philadelphia reported some increased demand related to ongoing repairs of infrastructure damaged during Superstorm Sandy last year. Reports from San Francisco indicated that shipments of steel products used in nonresidential construction continued to increase, and reports from Chicago indicated that steel output grew at a moderate pace. Boston and San Francisco noted increased demand for semiconductors. High-tech manufacturing firms in the Dallas District noted that demand was stable, and, while Kansas City District firms reported that sales dipped, contacts there expect sales to bounce back in the next three months. In general, contacts in most Districts expressed optimism about a near-term pickup in overall manufacturing activity. Production in the defense industry was mixed across Districts. Contacts in the Boston District reported minimal direct effects of the federal sequestration, although they were concerned about the prospect of larger effects in the fourth quarter. On the other hand, defense firms in the Kansas City and San Francisco Districts reported that the effects of the sequestration have already been passed through to actual reductions in production.

Real Estate and Construction

Activity in residential real estate markets increased moderately. The pace of sales of existing single-family homes continued to increase moderately in most Districts. Sales activity in New York City's co-op and condominium market was described as unusually strong in July and August, and the Cleveland District reported that year-to-date sales of existing single-family homes were up substantially relative to the same period last year. Reports from several Districts suggested that rising home prices and mortgage interest rates may have spurred a pickup in recent market activity, as many "fence sitters" were prompted to commit to purchases. Sales of new single-family homes stabilized during the past few months in the Cleveland District after accelerating earlier in the year. New home sales declined slightly in parts of the Philadelphia and Richmond Districts in July. Philadelphia conveyed that some borrowers apparently preferred to lock in a mortgage rate for an existing home rather than wait for a new home to be completed and chance higher mortgage rates. Home prices climbed in most Districts. Richmond and Boston reported that houses in some areas were staying on the market fewer days and increasingly receiving multiple offers. New York noted that bidding wars were common in the Buffalo area. Many Districts reported that limited inventories of desirable properties contributed to upward price pressures. Single-family home construction was strong in the Minneapolis and Dallas Districts, and Chicago reported that a number of builders are planning new developments to begin later this year. However, several Districts noted constraints on the construction of single-family homes. San Francisco pointed to shortages of construction workers. In the Kansas City District, some building materials, such as drywall and roofing shingles, were in short supply.

Demand for nonresidential real estate increased. Office vacancy rates and other indicators in markets for office space improved modestly in the major metropolitan markets in the New York, Richmond, and St. Louis and Districts. Rents for Class B office space in Manhattan have risen more than 10 percent over the past twelve months. Demand for commercial real estate showed strong growth in the Dallas District and moderate growth in the Minneapolis District. Both Districts reported new plans for construction of industrial space. Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Kansas City, and San Francisco reported modest growth in demand for commercial real estate. Philadelphia highlighted a shift in recent leasing activity toward larger commercial spaces. The Boston, Philadelphia, Cleveland, Atlanta, Dallas, and San Francisco Districts all reported increases in construction of multifamily residential properties.

Banking and Finance

Lending activity weakened a bit, and several Districts reported less-favorable conditions than in the preceding reporting period. Most Districts indicated no better than modest growth. Loan growth in the Atlanta, Chicago, St. Louis, and San Francisco Districts was slower than in the previous reporting period. Kansas City reported a decline in lending, reversing slight growth earlier in the summer. Several Districts characterized business lending as largely flat. Chicago reported that recent interest rate increases likely were depressing commercial investment. However, Kansas City noted that expectations for better economic conditions and stronger profit growth had offset any effects of rate increases on business loan demand. Demand for mortgage refinance loans declined in the New York, Philadelphia, Cleveland, and Richmond Districts. By contrast, purchase mortgage lending continued to grow moderately in most Districts, although San Francisco noted that applications have dropped a bit in some areas of that District. In the Atlanta District, increases in home values generated a surge in second mortgages, and Philadelphia and Cleveland reported modest increases in demand for home equity lines of credit.

Lending standards were largely unchanged, while credit quality improved. Reports indicated little change in standards across all lending categories. However, a few Districts commented that stiff competition for high-quality commercial borrowers was eroding loan volumes at banks that maintained prudent interest rates and terms. New York reported widespread declines in delinquency rates, especially for consumer loans and home mortgages, while Philadelphia, Cleveland, Richmond, and Kansas City all reported general improvement in loan quality.

Agriculture and Natural Resources

Demand for agricultural products expanded during the reporting period, although production activity was limited by extreme weather in some areas. Droughts or dry weather in the Chicago, Kansas City, and Dallas Districts constrained farming activity, but some growing areas within the Chicago and Dallas Districts were relieved by much-needed rainfall. By contrast, extremely wet conditions led to delayed planting and reduced yields for some crops in the Richmond and Atlanta Districts. Kansas City noted that wheat production was below average and corn crops were threatened by disease, and Atlanta and Dallas indicated that the cotton crop was smaller than anticipated. Chicago noted that, despite the dry weather, corn and soybean crops were in better condition than they were during the drought last year. Meanwhile, the St. Louis District anticipates robust production activity, with corn crop yields expected to increase substantially over last year. San Francisco noted that demand was generally strong for most crop and livestock products, and Atlanta found that poultry farming and fruit production were robust.

For producers of natural resource products, demand was mostly steady, while production and extraction activity rose. San Francisco reported a modest decline in demand for some oil products, and Dallas reported stable drilling activity at a high level. Contacts in San Francisco and Dallas expect near-to medium-term oil-related sales and production activity to pick up; contacts in Dallas and Atlanta expect drilling activity in the Gulf of Mexico to increase as demand continued to grow. Richmond and Kansas City reported that the number of natural gas rigs increased, but coal production in the Cleveland, Richmond, St. Louis, and Kansas City Districts was below year-ago levels. Minneapolis reported upgrades to a nuclear power plant and development of oil sands production facilities, and Cleveland noted that unconventional drilling activity increased. Mining activity was flat in the Minneapolis and Richmond Districts.

Employment, Wages, and Prices

For most industries and occupations, hiring held steady or increased somewhat in most Districts. Hiring in manufacturing rose modestly. St. Louis reported increases in employment at a variety of manufacturing firms connected to the auto industry or the home construction industry. Boston, Richmond, and Minneapolis reported shortages of some types of skilled manufacturing workers. Hiring increased for selected services occupations. Increases in demand for information technology workers were widespread. Hiring increased for workers in accounting and health services occupations in several Districts. Retail employment gains were limited. Atlanta reported slight employment increases in Georgia and Florida, and Dallas reported gains in oil and gas producing areas. Cleveland noted that retail employment increases were limited to new stores. Boston and Richmond reported that temporary workers are increasingly being offered permanent employment. A health-care staffing firm in the Boston District reported a 30 percent increase in permanent placements this year. Similarly, a staffing firm in the Dallas District reported “near-record” levels of direct hiring by health-care and engineering clients.

Wage pressures remained modest overall. The Boston, Philadelphia, Cleveland, Atlanta, Dallas, and San Francisco Districts reported that wage pressures were largely subdued. Cleveland and Dallas highlighted that, overall, wage pressures at homebuilding and other construction-related firms were contained. New York reported that some firms have become increasingly willing to negotiate salaries, although pay rates have not escalated significantly. Reports from a few Districts highlighted significant labor supply constraints and, in some cases, large compensation increases for workers with specialized skills in selected sectors, including the construction and high-technology sectors in Atlanta and Kansas City and the engineering sector in Dallas. Kansas City also reported that some firms in the retail, leisure, and hospitality industries were beginning to raise wages to attract salespeople, housekeepers, maintenance

staff, and clerical staff. Increases in the costs of employee health benefits continued to put upward pressure on overall compensation costs, although Minneapolis indicated that growth in the price of health-care has slowed.

Upward price pressures were subdued, and price increases were limited during the reporting period. Reports from many Districts indicated modest growth, no change, or slight decreases in overall commodity and input prices. In a few Districts, prices of some construction inputs in short supply increased, including lumber, drywall, concrete, and roofing shingles. However, Cleveland noted that the rate of increase for construction input prices slowed, and lumber prices in the Chicago District declined. Dallas reported that law firms had reduced their billing rates slightly. Atlanta and Chicago reported that firms have limited pricing power in general. Similarly, food costs continued to increase in the Kansas City District, but most restaurant owners did not increase menu prices. However, Richmond reported that several construction-related businesses said that they were able to pass along rising input prices.

FIRST DISTRICT – BOSTON

Economic activity in the First District continued to expand at a modest pace. Most contacts reported low-to-moderate single digit year-on-year growth rates. Higher interest rates appear to have different effects on commercial real estate where some contacts reported upward pressure on capitalization rates and residential real estate where contacts report that the prospect of rising rates “nudged” buyers into the market, increasing demand. No firms report major cyclical layoffs but hiring remains subdued except among fast-growing technology firms. Sequestration has yet to have had any direct effect on contacts with major government businesses but contacts anticipate weakness in the future. Contacts did not complain of higher input prices and did not report that they were raising prices significantly either.

Retail and Tourism

Most contacts report year-over-year comparable store sales increases between 4 and 5 percent. Demand remains quite strong for all apparel, home furnishing, and home improvement categories, as well as technology products like tablet computers. Contacts indicate that prices remain steady, and feel that consumer sentiment continues to improve. There is some cautious optimism that this more positive trend will continue but expectations for 2013 sales still center on modest single-digit increases.

Both business and leisure travel remain strong with leisure driven by both domestic and international visitors. Attendance at some museums and other attractions is below expectations. While a contact noted that July and August are not heavy months for government-related travel, there is some concern that U.S. government travel budgets, cut 30 percent because of the sequester, will start to have a negative impact on travel industry revenues later in the year.

Manufacturing and Related Services

Three companies—a semiconductor industry supplier, a medical device maker, and a fitness equipment manufacturer—reported double-digit increases in sales compared to the same period a year earlier, four reported single-digit increases from the previous quarter and three companies reported declines. Some contacts reported that sales in Europe were finally growing again. The majority of contacts report no change in prices from the first quarter, either the input prices they face, or their own sale prices. Employment growth continues to be modest. A rapidly growing medical device manufacturer reports increasing headcount at a 15 percent

annualized rate but most firms are hiring only “selectively.” One firm did report layoffs due to a repositioning of a formerly bricks and mortar business as e-commerce. Defense industry contacts reported little direct effect of sequestration but continued to worry with one contact mentioning rumors that major cuts would come in the fourth quarter. Contacts reported no major revisions of their investment plans and most expect single-digit year-on-year growth in the next quarter.

Software and Information Technology Services

New England software and information technology services contacts generally report weaker than expected business activity through August, with slow revenue growth. Several attribute this sluggishness to continued macroeconomic uncertainty in the U.S. and Europe. In contrast, a contact which mainly works with health care firms attributes the slowdown to the expiration of federal stimulus funding for health records software; however, business in the post-stimulus slump has been better than expected. A business advisory contact sees early signs of improvement in the overall market, as evidenced by an uptick in Q2 sales activity in terms of customer expenditure. Four out of five contacts continue to be cautious in hiring, and plan to remain close to their current headcounts through 2013. Both selling prices and capital and technology spending have gone largely unchanged in recent months. Looking forward, New England software and IT firms are cautiously optimistic, with most expecting only modest growth through the second half of 2013.

Staffing Services

New England staffing contacts generally report strengthened business conditions through August, characterized by mid-single-digit year-on-year revenue growth. This continued growth reportedly reflects both an increase in overall labor demand and a shift to more aggressive marketing strategies at the firm level. Generally, there is a high demand for skilled IT workers and engineers; contacts also report increased demand for manufacturers and medical assistants. On the supply side, there remains a shortage of skilled technical workers to fill high-end IT and engineering jobs. The general consensus is that despite a large pool of available workers, the skills mismatch prevents staffing firms from fully meeting client demand. The number of temporary-to-permanent placements continues to grow; a healthcare contact reports a 30 percent

increase in permanent placements this year. Bill rates and pay rates are largely unchanged, with the exception of one firm reporting a decrease relative to May due to the current client mix. Looking forward, staffing contacts continue to be cautiously optimistic, expecting mid-single-digit year-on-year revenue growth through the remainder of 2013.

Commercial Real Estate

Contacts were mixed in their analysis of the effects of higher interest rates. In Boston and Providence, contacts reported upward pressure on capitalization rates noting that the frequency of renegotiation (or “re-trading”) of deals in progress increased in recent weeks. Contacts in Hartford reported no effects so far of higher rates on demand for commercial real estate. A regional lender to commercial real estate continues to face challenges securing desired loan volume in the face of competition from other lenders willing to offer commercial mortgages at very low rates. Construction activity remained robust in greater Boston and the pipeline of deals yet to break ground increased significantly over one year ago. Current and planned construction projects in the Boston area are concentrated in high-end multifamily and mixed-use (retail/residential) structures, although construction activity is poised to rise in the hospitality sector and among institutions of higher education. Contacts continued to expect slow improvements in commercial real estate fundamentals in the coming months, but roughly half of contacts raised the uncertainty around their projections relative to last report, with much of the growing uncertainty linked to uncertainty over long-term interest rates.

Residential Real Estate

Throughout the First district, the market for single-family homes and condos continues to make a healthy recovery as sales and prices continued to increase and days-on-the-market continued to fall. According to contacts, increases in the mortgage rates have nudged potential buyers, hoping to take advantage of low-interest rates, to enter the market. In some areas, particularly in the Greater Boston area and Massachusetts, realtors have observed an increasing frequency of multiple offers being made on properties. Despite shrinking inventory, sources state that modest appreciation in regions where multiple bids are common indicates that the market is not overheating.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has continued at a moderate pace since the last report. Contacts indicate that cost pressures remain moderate, while selling prices continue to be steady to up slightly. Labor market conditions have shown further signs of improvement, while wage increases have remained subdued. Retailers report that sales picked up a bit in July and August and were on or close to plan; new automobile sales have strengthened since the last report. Tourism activity has been mixed since the last report. Commercial and especially residential real estate markets have shown signs of firming. Finally, bankers report steady to somewhat softer loan demand, little change in credit standards, some leveling off in loan spreads, and widespread declines in delinquency rates.

Consumer Spending

Retailers report that sales were mixed but on or close to plan in July and early August. A major retail chain reports that sales were on plan in July and in early August, with New York City stores out-performing the rest of the region somewhat. One major mall in upstate New York notes that sales have picked up in recent weeks, following a sluggish June when sales were hurt by inclement weather. However, another upstate mall reports that sales are down slightly from a year ago, in part reflecting fewer Canadian shoppers. Inventories are generally at or near desired levels. Prices are generally described as stable, though a few contacts say there is significant discounting.

Auto dealers in the Buffalo and Rochester areas report that new vehicle sales strengthened in July, running roughly 15 percent ahead of comparable 2012 levels; early indications are that sales in August have been similarly robust. High end brands are reported to be selling particularly well. Sales of used automobiles have been mixed but generally soft. Wholesale and retail credit conditions for auto purchases continue to be characterized as favorable.

Tourism activity has been mixed since the last report. Hotels across parts of upstate New York have seen some decline in occupancy rates. Business at Broadway theaters has picked up somewhat from mid-July to mid-August; attendance is still down modestly from a year earlier but not by nearly as much as in June and early July. Moreover, revenue was running ahead of comparable 2012 levels in July and the first part of August—the first such gain since March. Finally, consumer confidence in the region has retreated slightly since the last report: both The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, Pa) and Siena College's survey of New York State residents show confidence declining modestly in July but running roughly on par with a year earlier.

Construction and Real Estate

Residential real estate markets in the District have strengthened since the last report. Buffalo-area contacts describe market conditions as very robust, as demand continues to outstrip supply. Thus far, there has been little new construction, and the lack of inventory has pushed prices up. Bidding wars are common for desirable properties. Similarly, sales activity in New York City's co-op and condo market has been unusually strong in July and August. The inventory of available apartments for sale has declined further and is at new lows, except at the high end of the market. Prices have been rising only modestly in Manhattan, though in Brooklyn, prices are reported to be up by close to 10 percent over the past year. Manhattan's rental market appears to be at a plateau: rents have leveled off and are up only marginally from a year ago. Brooklyn rents, on the other hand are up 5-10 percent over the past year. As in the sales market, the inventory of available rentals remains tight throughout New York City.

An authority on New Jersey's housing industry reports that market conditions continue to improve gradually: sales activity has picked up somewhat and prices of existing homes are up roughly 2 percent from a year ago. Multi-family construction activity has been robust but single-

family construction remains sluggish; there continues to be little or no spec building. A sizable inventory of distressed properties persists. The New Jersey shore rental market has not yet recovered to 2012 levels; markets in communities hardest hit by Sandy remain particularly depressed.

Commercial real estate markets across the District have been steady to slightly firmer since the last report. Manhattan's office vacancy rate remains little changed at a low level and is down modestly from a year ago; asking rents for Class A properties have been flat, whereas rents on Class B office space have been trending up and have risen more than 10 percent over the past year. Office vacancy rates in Northern New Jersey, as well as in Westchester and Fairfield counties, have come down since the beginning of this year, though they remain elevated. Long Island's vacancy rate is steady at a low level. Office markets in the Buffalo and Rochester areas have been stable, while Albany's has been somewhat softer.

Other Business Activity

The labor market has shown signs of strengthening. One major employment agency notes that summer business has been unusually strong across the board—in terms of both industries and occupations. Another major agency describes the improvement as more gradual. Both these contacts report that people are finding jobs more quickly and that demand for IT workers has been particularly strong. Companies are also described as increasingly negotiable on salary, though pay has yet to start escalating significantly.

Manufacturing firms in the District report a pickup in employment levels, and a growing proportion of contacts plan to add workers in the months ahead. More broadly, manufacturers report that business activity has continued to improve modestly since the last report, that input price pressures are steady and that selling prices are little changed. Non-manufacturing firms indicate that both business and hiring activity have been steady since the last report, though these contacts have become a bit more optimistic about the near term outlook and also in their hiring plans. Service

sector firms report that cost pressures remain somewhat widespread but are more subdued than earlier in the year.

Financial Developments

Small- to medium-sized banks in the District report a decrease in demand for residential mortgages but little change in demand for other types of loans. Bankers report fairly widespread declines in refinancing demand—more so than at any time in the past three years. Respondents indicate that credit standards are little changed across all loan categories. Spreads of loan rates over costs of funds are reported to have narrowed, on balance, but to a lesser extent than has been the case for most of the past two years. Finally, bankers report widespread decreases in delinquency rates, particularly for consumer loans and residential mortgages.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District continued at a moderate pace of growth during this current Beige Book period. Moderate rates of growth continued for general services, existing home sales, and home construction. Homebuilders felt their sales may have been partially dampened by rising mortgage rates; however, construction remained well above its level of a year ago. Meanwhile, auto sales continued their strong rate of growth; growth of freight shipping was also strong. General retail sales, commercial real estate leasing, staffing services, and tourism continued to expand at modest rates, while manufacturing and commercial real estate construction continued to expand only slightly. Loan volumes at Third District banks grew at a modest pace across most categories; credit quality continued to improve. Contacts reported slight increases overall for general price levels as well as for wages and home prices – 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 U.S. economy and in global conditions. However, firms remained cautious in their hiring and long-term capital expenditure plans and expressed concern about a potential fiscal crisis regarding the federal debt ceiling.

Manufacturing. Overall, Third District manufacturers reported further increases in orders and shipments since the last Beige Book, although overall growth remained slight. Makers of food products, paper products, and fabricated metals reported gains. Producers of lumber and wood products, primary metals, electronic equipment, and instruments reported lower activity, much of it seasonal in nature. Reports were mixed for makers of industrial machinery. Overall, firms continued to report strong demand from auto- and residential construction-related businesses. Firms also reported some demand related to infrastructure repairs in response to Superstorm Sandy. Several firms reported difficulties meeting demand because of insufficient physical capacity, an inability to train new workers quickly enough, and/or customers' expectations of shorter delivery times. A large supplier to a broad base of industry reported that business improved from early summer through early August, with larger backlogs in key segments.

Optimism has generally grown among Third District manufacturers that business conditions will improve over the next six months. A contact described U.S. manufacturing as “poised to grow” while citing signs of improvement globally, particularly in Europe and China. Some capacity expansion appears to be under way, as infrastructure projects that were being intentionally delayed are now coming on stream. Though generally positive, firms have lowered their expectations somewhat regarding hiring and capital spending plans since the last Beige Book.

Retail. Third District retailers reported modest growth overall since the last Beige Book, though results were mixed between outlets and traditional malls. Contacts said sales were soft in July, possibly dampened by excessive heat, but began to pick up in August with more back-to-school shopping. Sales of children's apparel were stronger at outlets than at traditional malls, indicating that consumers were doing more price-shopping. Mall retailers were optimistic that sales would continue to pick up into the fall.

Auto dealers continued to report strong sales growth in July and the beginning of August. Pickup truck sales have been strong in the shore areas as rebuilding efforts continue. Contacts cited healthier household balance sheets, pent-up demand, and attractive leasing options as factors for strong sales. Dealers noted lean inventories as production has generally kept in line with demand. Dealers remain very optimistic, although their hiring continues to lag rising sales.

Finance. Overall, Third District financial firms continued to report modest increases in total loan volume. The most notable difference from the last Beige Book period was the further reduction in mortgage refinancing in response to higher interest rates. Contacts noted that demand for mortgages to purchase homes continued to increase modestly, as did demand for home equity lines and commercial real estate and C&I loans. Stronger increases were noted for most types of consumer lending, although credit card volumes fell off slightly. Contacts uniformly reported that small businesses remain very cautious, doing little or no borrowing for expansion and needed infrastructure. Credit standards have changed little, according to most banking contacts. However, many expressed concern about very tough competition on rates and terms – reflecting a “lack of reason,” according to one banker. However, most bankers reported that business was good overall and the credit quality of their loan portfolios was healthier. They remained “cautiously optimistic.”

Real Estate and Construction. Homebuilders throughout most of the Third District remained moderately busy with existing projects from spring sales. However, several builders reported a dip in traffic and new sales contracts in July, with modest sales growth resuming in early August. Higher interest rates were partly blamed for the lull: Locking in a mortgage rate now for an existing home appeared preferable to getting a mortgage later when the new home is completed. Sales of existing homes continued to grow at a moderate pace into August, according to residential brokers. A broker in the greater Philadelphia area described sales growth as “good steady improvement, not soaring.” Sales closed and sales pending grew by double digits (year over year) in some of the larger metropolitan areas in the Third District and by nearly double digits in a few others. The estimated months of supply of homes has risen since May in several areas, described as a seasonal trend rather than evidence that the shadow inventory of homes is emerging.

Nonresidential real estate contacts continued to report little change in the modest pace of overall leasing activity and slight growth of construction. However, architecture and engineering firms were seeing greater interest and increased workflow, which are expected to generate construction activity in the future. Meanwhile, general contractors reported that activity was very slow, with heavy competitive bidding on each project. New and ongoing projects continued to be heavily represented by industrial structures, institutional facilities, multifamily residential units, and public utilities. Market analysts observed a shift in recent leasing activity by large users of commercial space away from a contraction in square footage to some expansion. In addition, some companies are opening branches in the Philadelphia area market. Contacts remained generally optimistic for slow, steady growth.

Services. Third District service-sector firms continued to report a moderate pace of growth overall. After a slow start to the summer, traffic counts, bookings, and boardwalk sales at shore destinations in Delaware and southern New Jersey picked up to a modest pace. A Delaware hotel group reported that its properties matched or exceeded last year's record; another hotel reported that July was its best month ever. However, those parts of central New Jersey hardest hit by Hurricane Sandy continued to struggle, with low numbers of returning summer residents and tourists. Throughout the District, tourists continued to spend cautiously. Atlantic City casino revenue continued its years-long downward spiral.

Other service firms reported continued moderate growth, although some cited seasonal slowdowns for the summer. One staffing firm explained that its clients' decision-makers are away for much of the summer. A large consumer firm anticipates higher activity in September following a typical August lull. Freight shipments have grown robustly throughout the District, tied to the expansion of intermodal facilities along the I-81 and I-76 corridors and to refinery activity along the Delaware River. Overall, service-sector firms remained optimistic about future growth.

Prices and Wages. Overall, price levels continued to increase slightly, similar to the previous Beige Book. Manufacturing firms reported that prices paid and prices received again increased modestly; the increases were even slighter this period than last. Auto dealers reported no changes in pricing. A mall operator noted apparel inflation in recent months. Builders continued to report land selling at a premium, rising land development costs, and difficulty finding qualified tradespersons. Most real estate contacts reported rising prices for lower-priced homes; price trends for higher-priced homes are closely tied to local market conditions. Recent safety regulations for truckers are expected to tighten capacity and spur higher prices this fall until more workers and new equipment are brought online. Generally, however, there are few wage pressures, according to most firms, including staffing companies.

FOURTH DISTRICT – CLEVELAND

Business activity in the Fourth District expanded at a moderate pace since our last report. On balance, demand for manufactured products grew at a moderate rate. Housing market activity has leveled out after a six-month period of strong growth; sales of new and existing homes were above year-ago levels. Nonresidential builders experienced a rise in backlogs and the number of inquiries. Retailers were disappointed with sales during June and July, while new motor vehicle purchases posted robust gains on a year-over-year basis. Shale drilling picked up in regions rich in wet gas and was above year-ago levels. Output at coal mines trended lower. Freight transport volume remained strong. Applications for business credit were flat, while consumer demand for credit rose slightly.

Hiring was sluggish across industry sectors. Staffing firm representatives reported that the number of job openings increased, with vacancies found primarily in healthcare and manufacturing. However, job placements were lower. Wage pressures remain contained. Input and finished goods prices saw little change, apart from increases in construction materials and oil.

Manufacturing. Reports from District factories indicated that demand grew at a moderate pace during the past six weeks. Companies seeing the strongest activity were suppliers to the energy, housing, medical device, and transportation industries. Defense contractors are still coping with uncertainty. Compared to a year ago, manufacturing production levels are similar or higher. Many of our contacts are optimistic and they expect that demand will rise during the next few months. Steel producers and service centers reported that shipping volumes were stable or fell below expected levels. Some respondents continue to express concern about the quantity of steel imports and the negative impact it is having on domestic producers. The outlook by steel producers is uncertain. As a result, they have been reducing inventories. District auto production showed a substantial decline in July on a month-over-month basis, due to normal seasonal retooling for model changeovers. Compared to a year ago, July production figures revealed a sizeable increase.

We heard some reports about a need by motor vehicle parts suppliers and assembly plants to expand capacity in order to meet demand. Other reports indicated that small manufacturers have reduced capacity utilization rates and bypassed growth opportunities because they were unable to hire skilled production workers. A majority of our contacts anticipate increasing capital budgets in the upcoming fiscal year. Raw material and finished goods prices were generally flat or trended lower, although producers acknowledged volatility in commodity prices. Steel producers who attempted to raise prices met with limited success. Factories expanded payrolls at a modest pace. Wage pressures are contained, though there is concern about rising health insurance premiums. One executive commented that he sees downward pressure on domestic labor costs due to excess production capacity off-shore.

Real Estate. Sales of new single-family homes have stabilized during the past couple of months, when compared to the solid growth seen earlier in the year. Builders characterized their sales as good, and most reported that they are higher than a year ago. One builder commented

that he is concerned about a lot shortage in the near term. On-line traffic and inquiries are rising. New home contracts were found mostly in the mid- to higher-price-point categories. Demand for multifamily housing remains strong. Builders expressed confidence that demand for new homes will persist in the upcoming months, but they are apprehensive about rising interest rates and difficulties in obtaining construction loans. They also believe that a rise in consumer confidence would bring additional first-time buyers into the market. Selling prices of new homes across the District were up about 5 percent on average year-over-year due to rising costs and larger building footprints. The number of existing single-family homes sold year-to-date is up substantially across many regions of the District, relative to a year earlier. Contract prices rose moderately. In some regions, the supply of existing homes for sale is a challenge, which is leading to higher prices.

Nonresidential builders continued to see slowly improving business conditions. Although inquiries have picked up, uncertainty about interest rates and the economy led to hesitancy on the part of some customers. Backlogs have grown substantially. The strongest activity was on the industrial and manufacturing side. The former is related to shale gas work and the conversion of coal-fired generators to natural gas. Work in higher education has replaced government-sponsored projects as a major revenue source. Multifamily housing, including senior living, was also strong. Our contacts were more optimistic about near-term growth prospects than they have been in recent months.

We heard many comments from homebuilders about price increases for construction materials (lumber, drywall, and concrete), though the rate of increase has slowed during the past month. Several builders reported that they plan to retain their temporary summer workers through the fall season. Hiring of permanent employees (office and field) was modest. Wage pressures are contained. General contractors reported a shortage of qualified subcontractors. On the residential side, requests for higher rates by subcontractors were met with mixed results. Commercial builders said their subcontractors are having difficulty obtaining operating capital.

Consumer Spending. Retailers were disappointed with their June and July sales. They cited consumers being strapped for money and unseasonably cool weather as factors that held down spending. On a year-over-year basis, same-store revenues were fairly even or lower. Products in greater demand included core goods such as food, back-to-school items, and furniture. Looking ahead, fourth-quarter sales are expected to improve slightly when compared to those in the third quarter. Inventories were characterized as a little high, but manageable. Vendor and shelf prices held steady. Capital expenditures were on plan for the fiscal year, with no changes expected in the near term. Hiring will be limited to staffing new stores.

Sales of new motor vehicles increased at a robust pace during July, and year-to-date sales were running ahead of last year's pace. The number of new vehicles sold in July was moderately higher than in June. Buyers prefer smaller, fuel-efficient vehicles. One dealer commented that the unpredictability of gasoline prices is a primary factor behind the sales of smaller cars. New-vehicle inventories are rising, but a majority of dealers said that they are satisfied with their inventory positions. Our contacts are optimistic about sales for the remainder of the year.

Dealers pointed to pent-up consumer demand, the availability of financing, and the option to lease as reasons for their optimism. Dealer service departments in the eastern third of the District are especially busy due to the influx of work generated by shale gas activity. Used-vehicle purchases rose during the past six weeks. Inventory is building as lease rollovers start to come in, which is putting some downward pressure on used-car prices. Even with an increase in business, dealers are reluctant to hire a large number of employees. For the few open positions, finding qualified applicants remains difficult.

Banking. Bankers reported that their industry is functioning in an environment of low interest rates, rising operating costs, and over-capacity. Net interest margins are showing signs of widening but remain below acceptable levels. Demand for business credit is flat or up slightly, with no loan category or industry performing significantly better than others. Our contacts attribute this to firms holding large cash reserves. A financial intermediary reported on a loosening in venture capital funding and commented that a substantial number of startups in the District are now contemplating an S-1 filing. Consumer-credit demand improved slightly, especially for auto loans, credit cards, and home equity lines of credit. Several bankers reported a slowing in residential mortgage activity. While new-purchase mortgages are trending higher, refinancing has dropped off. No changes were made to loan-application standards. Delinquency rates declined slightly. There were few reports about workforce reductions.

Energy. District coal production remains below year-ago levels, with the largest declines seen in eastern Kentucky. Spot prices for steam-coal declined slightly, whereas metallurgical coal prices were flat. Unconventional drilling picked up in regions rich in wet gas since our last report, and the number of drilling rigs is higher than last year at this time. However, in dry gas regions, drilling has declined during the past 12 months due to the low price for natural gas. Total output from gas wells was down slightly, while oil production was stable. Well-head prices for natural gas are flat to down, while oil prices were up substantially. Capital expenditures remain at targeted levels. One driller commented that the low price for natural gas is affecting the value of his reserves, which he uses as collateral for loans. As a result, banks are increasingly reluctant to extend credit for drilling new wells. On balance, little change was seen in production equipment and material prices. Labor costs are steady other than for rising healthcare insurance premiums.

Freight Transportation. Freight executives reported that shipping volume remains strong and they are seeing an improvement in net profits. Their outlook is cautiously optimistic. Freight haulers are still sorting through the effects of the hours-of-service regulations (HOS) that went into effect on July 1. The primary concern focuses on the availability of drivers and the ability of shipping companies to effectively schedule those drivers. Prices for equipment and maintenance items were stable. Capital outlays were allocated more for equipment replacement than capacity expansion. Some of our contacts have begun evaluating the use of tractors that run on compressed natural gas (CNG). Preliminary results indicate that these trucks may be more suitable for short-haul situations due to infrastructure issues. The industry is still experiencing a shortage of drivers, due in part to HOS rules and a high turnover rate.

FIFTH DISTRICT–RICHMOND

Overview. Economic conditions in the Fifth District improved moderately since our last report. Manufacturing shipments and orders rose, and capital spending increased. Retail weakened, with the exception of robust auto sales. Revenue growth was strong among non-retail services firms and tourist destinations reported good attendance. In banking, lending activity slowed somewhat under the pressure of higher interest rates. Residential real estate and construction activity varied, while commercial real estate and construction markets were little changed. Heavy rains in the Mid-Atlantic hindered harvests and raised concerns about crop damage. In energy markets, natural gas production increased sharply as more infrastructure came online; in contrast, coal mining declined. Conditions in District labor markets improved modestly. Growth in manufacturing prices for inputs and finished goods slowed; service sector price increases also slowed. Average wages rose in both sectors.

Manufacturing. Manufacturing shipments and orders rose moderately, and reports of greater spending on plant and equipment increased. Producers of auto parts, plastics, and textiles were buying machinery. A lumber company executive said his business had purchased new equipment to increase production in response to higher order volume. Another contact indicated that demand had picked up for mid-range and high-end cabinetry. In contrast, a furniture producer reported that all employees had to take unpaid time off in recent weeks, and a machine parts manufacturer worried that he might have to begin layoffs by early autumn. According to our latest manufacturing survey, growth slowed in prices of both raw materials and finished goods.

Ports. District port contacts indicated that bulk and container shipments grew briskly in recent weeks. Agricultural products accounted for much of the increase in exports, while auto-related products were a large share of the growth in imports. Coal exports declined in recent weeks while remaining slightly up for the year. The ports' peak season began in July, as retail imports allowed stores to stock up for the holidays. Port officials were monitoring developments in the Middle East closely because the Suez Canal is a "vital artery" for shippers.

Retail. Sales revenues weakened since our last report. Retail and wholesale suppliers of construction inputs gave mixed reports. A West Virginia building materials wholesaler commented that his sales were flat and cautioned, "Contractors who normally have a six-month backlog of work are down to two months." Several grocers, convenience stores, and pharmacies also reported flat sales, while sales at art and hobby shops and an electronics retailer declined. Auto sales were strong; a dealer in West Virginia remarked that his dealership had its best thirty days ever this summer and a dealer in the Washington, D.C. beltway area said his sales doubled compared to this time last year. He noted, however, that purchases were based on need, rather than discretionary spending. Average retail price growth picked

up slightly. In particular, a grocery wholesaler noted gradual but steady increases in his cost of meat, poultry, and seafood.

Services. Non-retail services firms reported generally robust growth in recent weeks. Among the categories noting stronger revenues were architectural services, IT, business law, advertising, and accounting. A financial services executive reported that clients were becoming more aggressive with respect to the amount of risk they would assume while remaining “a little nervous under the surface.” Construction-related businesses such as contracting reported more bidding opportunities and project starts; several also commented that they were able to pass along rising input prices. Healthcare organizations reported softer demand and many were making cost reductions to help offset lower reimbursements, sequestration, and uncompensated care. Smaller hospitals continued to express concern about their viability under the Affordable Care Act, and the solution for some has been to pursue affiliation with a larger healthcare system. Growth in overall services prices slowed.

Tourism representatives reported strong attendance at resort locations. Year-over-year National Park visits in the Washington, D.C. area increased. A contact on the outer banks of North Carolina indicated hotels bookings were up and rentals were good, albeit not quite “the banner year” people had expected. She noted that restaurants were generally busy, although budget-conscious tourists were primarily frequenting “tapas and deck parties” instead of fine dining establishments. A resort executive in western Virginia reported that occupancy rose and revenues increased by double digits over this time last year. He observed that “the family vacation seems to be coming back.” In central North Carolina, an hotelier reported that corporate bookings were up, while government stays fell.

Finance. The pace of growth in District lending slowed somewhat as many bankers reported a drag from higher interest rates. On the business side, contacts generally indicated that any adverse impact from the modest increase in interest rates was being offset by expectations for better economic conditions and stronger profit growth. One banker flatly stated that “CFOs understand that rates remain near historically low levels.” Small business loan volumes increased modestly. A lender in the D.C. area noted that some small businesses that wanted to grow were looking to do so through acquisitions. Most banks reported no changes in standards and terms for business loans, although competition was reportedly testing lenders’ discipline. New residential mortgage lending was said to be holding up, but virtually every banker said that refinancing had slowed. Overall, mortgage loan volumes were reported to be modestly lower. Demand for other types of household loans held fairly steady, and metrics of consumer credit quality displayed fewer signs of duress.

Real Estate. Reports on residential real estate and construction activity were more varied since the last survey period. Several Realtors said that demand for owner-occupied homes remained firm and a dearth of quality inventory was leading to fewer days on the market, more multiple offers, and higher selling-to-asking price ratios. Some reports suggested that rising home prices and mortgage interest rates

may have boosted demand in the near term as many “fence sitters” were moved to make a decision. While homes remained affordable, one contact said that “they aren’t the screaming bargain they once were.” Residential construction activity increased at a slower rate. A homebuilder who develops in the Carolinas reported that sales and traffic through models edged lower since our last report, although he could not determine if this was due to higher interest rates or a typical summer lull. A builder in Northern Virginia noted a similar slowdown, but added that activity had picked up in early August as potential homebuyers adjusted to higher mortgage rates. He expected that strength to be sustained.

Commercial real estate and construction markets were little changed in recent weeks. Contacts in most areas reported that vacancy rates continued to decline modestly in office and industrial markets, while retail vacancies remained very low. There were a few suggestions that rents were firming and several real estate professionals noted that landlords were offering fewer concessions to potential tenants. Given the rather steady improvement in vacancy rates, and lack of construction in recent years, respondents in many areas expected commercial construction to pick up momentum in late 2013, particularly in the office and industrial markets.

Agriculture and Natural Resources. Heavy rains in the Mid-Atlantic delayed the harvest of some grains and hay cutting, particularly in the lowlands of the Carolinas. According to one source, cotton, peanuts, and soybeans might be damaged by the unusually high levels of precipitation. Another contact in South Carolina noted that some late crops could not be planted and root systems of plants in the ground have not developed well because of the rain. He added that cotton and tobacco crops “do not look good at all.” A number of contacts noted that corn prices had risen and were expected to remain high for some time. Prices of beef and pork were also up, according to sources. Poultry farming and fruit production were strong in recent weeks. Results of our recent agricultural credit survey indicated that farmland values remained relatively constant since the beginning of this year.

Natural gas production increased sharply as more infrastructure came online. An industry executive expected production and rig counts to continue to rise. Another contact stated that demand for District coal had declined further since our last report, idling some mines and resulting in large layoffs.

Labor Markets. Labor market conditions improved modestly since our last report. Employment increased in most areas. Demand increased for workers in financial services, accounting, IT, health services, and manufacturing. Reports of difficulty finding workers with the “correct” skills were widespread, and a West Virginia contact commented that it was difficult to find people “at any price.” A Virginia executive noted that workers went from temporary to permanent employment more frequently, while a source in North Carolina indicated that temporary assignments were lasting longer than they did a year ago. Our most recent survey results were generally consistent with other accounts: hiring increased somewhat at manufacturing and non-retail services establishments, while retail employment declined slightly. Average wages rose in the manufacturing and service sectors, including retail.

SIXTH DISTRICT – ATLANTA

Summary. According to reports from Sixth District contacts, economic conditions modestly improved from July to mid-August. Most businesses noted a positive outlook for the remainder of the year.

Merchants indicated a slight pickup in retail sales and automobile sales were strong. The travel and tourism sector remained a bright spot across much of the District. Residential real estate continued to recover at a solid pace as sales and prices stayed ahead of last year's level. However, low housing inventories were still restraining sales growth. Commercial real estate contacts reported slight improvements in demand and construction activity. Manufacturers cited a decrease in new orders and production. Bankers noticed very little pickup in loan activity, overall. District payrolls improved slightly. Input cost increases were described as being relatively subdued by most firms.

Consumer Spending and Tourism. District retailers indicated that sales rose slightly from July to late-August. Reports described consumers as remaining cost conscious. Automotive dealers noted that year-end projections are being revised up as truck sales strengthen mostly from contractors purchasing vehicles again.

Hospitality contacts continued to witness strong travel and tourism activity this summer. Overall demand in the sector remained on the rise resulting in a pickup in hiring of both full-time and part-time workers, although the cruise industry reported a decrease in both domestic and international demand as a result of the recession in Europe and a slowing economy in China. With the exception of cutbacks in travel in the government sector, the industry is forecasting steady growth for the remainder of the year.

Real Estate and Construction. District brokers continued to report that existing home sales and prices remained ahead of last year's level. When polled about rising mortgage rates, some said business had improved as buyers moved to lock-in rates. However, nearly half of respondents also said that rising rates were having a negative impact on their business by slowing buyer traffic, disqualifying some buyers, and forcing some to shift to lower price points. Inventory shortages persisted and were seen as a major factor restraining sales. Low inventory levels continued to put upward pressure on home prices in many submarkets across the District. Even so, the outlook for sales growth remained slightly positive, with the majority of brokers anticipating sales gains over the next several months.

District homebuilders cited that new home sales and construction were ahead of year earlier levels. The majority of builders said that rising rates were not having an impact on their business.

Most builders reported that the availability of development and construction financing remained below demand, new home inventories were below the year earlier level, and prices rose modestly. The outlook for new home sales and construction was positive, but the outlook for growth continued to moderate from earlier in the year.

District commercial brokers noted that demand for space improved at a modest pace during the summer. Construction activity was described as flat to slightly up from earlier this year with apartment development dominating activity. 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 for the rest of the year.

Manufacturing and Transportation. While the majority of the region's manufacturers cited expanding activity, the pace of growth decreased from July to mid-August. New orders and production experienced modest decreases which contributed to the slowing of activity. However, a number of firms, especially those in the auto sector, continued to report solid demand for their products. When asked about their outlook, one-third of regional purchasing managers expect higher production over the next three to six months.

Regional railroad companies noted that total year-over-year volumes remained flat; however, growth was seen in shipments of petroleum-related products, forest products, nonferrous scrap metals, and metallurgical coal. District ports cited robust activity in the movement of energy products as well as rubber and steel used in automobile production. Reports were mixed for containerized cargo volumes. Air cargo contacts stated that year-to-date air freight tonnage rose slightly from a year ago with notable increases in imports, while declines in exports were attributed to the recession in Europe and a slowing economy in China. District trucking companies reported a slowdown in year-over-year volumes. The recent implementation of the "Hours of Service" regulation, which restricts driving hours, and a short supply of new drivers were mentioned as limiting growth opportunities.

Banking and Finance. Banking contacts did not witness any noticeable increase in overall lending as most borrowers had already taken advantage of lower rates. However, the recent uptick in rates did motivate many businesses to move to lock-in rates through refinancing. Some bankers also reported a pickup in loan volume for lending products such as second mortgages, credit cards, auto lending, and commercial lending. A surge in second mortgage requests was caused by increasing home values. Qualifying new business loans remained fairly scarce with many banks competing over the same few loans.

Employment and Prices. Since the last report, the region's pace of payroll growth improved modestly. Gains were seen in Georgia and Florida, as those states saw slight payroll increases in retail, leisure and hospitality, and professional and business services. On balance, firms were hesitant in hiring new staff due to various uncertainties, with healthcare reform mentioned most frequently. Similarly, in recent polls, contacts expressed a clear preference for investing in capital expenditures to improve efficiencies and reduce costs rather than hiring additional labor.

Growth in input costs was muted for most businesses as price inflation for crude and intermediate materials remained relatively subdued. According to our August Business Inflation Expectations survey, costs were up 1.7 percent from the previous 12 months and were expected to rise to 2.0 percent in the year ahead. Businesses continued to note tight margins and very little pricing power. Wage pressures were largely subdued, except for industries where workers are in short supply, such as information technology and specialized construction. Wage increases in the 2 to 3 percent range remained standard, with the distribution of increases weighted toward workers whose skills are in highest demand.

Natural Resources and Agriculture. Energy refiners reported a pickup in activity, with more oil flowing into the region from the central U.S. and Canada. Rail transport capacity expanded for crude oil and liquid feedstocks, with large off-loading and increased storage capacity occurring along the coast. Contacts expect deep-water drilling in the Gulf of Mexico to continue to expand.

Since the last report, most of the District received ample or, in some cases, excessive rain. These rains have resulted in problems with pesticide efficacy, delayed planting, and damage or reduced yield for some crops. On a year-over-year basis, prices paid to farmers were elevated for meat protein (beef, hogs, and broilers), corn for grain and cotton saw price reductions, and soybean prices remained unchanged.

SEVENTH DISTRICT—CHICAGO

Summary. The pace of economic activity in the Seventh District improved in July and August, and contacts generally expected moderate growth for the rest of the year. Growth in consumer and business spending picked up. Manufacturing production increased, as did construction. Credit conditions tightened some. Cost and wage pressures were modest. Abnormally dry weather hurt crop prospects in many areas of the District, but to a much lesser degree than during last year's drought.

Consumer spending. Growth in consumer spending picked up a bit in July and August. Non-auto retail sales increased modestly, with sales of luxury and housing-related items such as furniture, appliances, plumbing-related hardware, and flooring improving. Compared with last year, retail contacts expected a slight increase in back-to-school sales with a high level of promotional activity. Auto sales rose, and continued to outpace growth in non-auto retail sales. Dealers reported an increase in demand across all vehicle segments, but especially for fuel-efficient cars and light trucks. Used vehicle sales remained strong. Several dealers indicated that they expect leasing and sales activity to pick up further in the fall, boosted in part by still-elevated replacement demand.

Business spending. Growth in business spending increased some in July and August. Contacts reported moderate investment in equipment and software and structures as well as a small increase in merger and acquisition activity. In contrast, inventory investment decreased, as manufacturing and retail contacts indicated a reluctance to increase inventories at the current pace of sales. Labor market conditions softened a bit. The pace of hiring slowed, with some contacts noting layoffs in recent weeks. Manufacturers and retailers, in particular, indicated that if they needed to add labor, they were more likely to boost hours or temporary and part-time hiring than expand their existing full-time workforce. Nonetheless, overall contacts reported an increase in their hiring plans for the remainder of the year. Demand for skilled workers remained relatively strong, particularly for finance, healthcare, engineering, accounting, and information technology occupations; and contacts again noted shortages of qualified truck drivers and workers in some skilled manufacturing and construction trades.

Construction/real estate. Construction and real estate activity increased further in July and August. Demand for residential construction grew steadily, as multifamily construction remained strong and single-family homebuilders reported an increase in showroom traffic. New single-family construction remained concentrated in infill areas, but an industry contact noted a number of

homebuilders are planning new developments slated to begin later this year. In residential real estate markets, home sales, prices, and rents all continued to rise. Contacts speculated that recent increases in mortgage rates had stimulated home sales, as buyers attempted to make purchases before rates rose further. Several also noted that a limited supply of existing homes currently on the market had pushed home prices higher, and that residential rents in some areas were now back above their pre-recession peaks. Nonresidential construction grew at a more modest pace, again in large part reflecting the ongoing expansion of the auto industry. Commercial real estate conditions continued to improve, as rents rose slowly and vacancies fell. In particular, leasing activity for specialty food stores was noted to be strong.

Manufacturing. Manufacturing production increased in July and August. Steel output continued to grow at a moderate pace. In addition, specialty metal manufacturers reported an increase in orders, particularly from the auto and aerospace industries. The auto industry continued to be a source of strength for District manufacturing. In addition, a contact indicated that demand for heavy and medium-duty trucks is likely to increase over the remainder of the year in anticipation of new emission standards in 2014. Demand for construction equipment, construction materials, and household appliances continued to strengthen with the recovery in the housing market. However, overall demand for heavy equipment remained soft, hampered by weak export demand and a reduction in mining activity.

Banking/finance. Credit conditions tightened some over the reporting period. Several financial market participants expressed concern about the impact of changing perceptions regarding monetary policy on long-term Treasury yields and equity markets. Net corporate borrowing costs were up slightly as benchmark interest rates rose. Banking contacts cited a modest reduction in overall business loan demand, but noted continued steady growth for commercial and industrial loans in the middle market. Contacts involved with commercial real estate finance indicated that the recent rise in interest rates was likely depressing some commercial investment. In contrast, consumer loan demand continued to increase, particularly for auto lending. Mortgage lending also rose, with new originations beginning to outpace refinancing activity for some banks.

Prices/costs. Cost pressures were modest in July and August. Contacts noted an increase in some commodity prices, such as those for metals like steel, copper, and aluminum. A few also cited higher energy costs, particularly for fuel and natural gas. In contrast, prices paid for some building products such as lumber moved lower. Retailers again reported mostly small increases in wholesale

prices; and, overall, pass-through to downstream prices was limited. Wage pressures were also modest, although many contacts again noted rising healthcare and other benefit costs.

Agriculture. Dry weather affected crop conditions in much of the District during the reporting period, lowering expectations for crop yields. Soybeans especially needed rain in order to fill out pods. Some of Iowa once again faced drought conditions. Nonetheless, corn and soybean conditions remained much better than they were during the drought last year. There were even parts of the District that received adequate moisture and should have above normal yields. Indeed, corn and soybean prices decreased on both spot and futures markets. There were also reports that less of this year's harvest than usual was pre-sold. Milk, hog and cattle prices declined from the prior reporting period, with livestock producers benefiting from falling feed costs. District milk production once again outpaced the levels of a year ago.

VIII-1

Eighth District - St. Louis

Summary

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

Consumer Spending

Reports from retail contacts were generally positive. Two-thirds of contacts noted increases in sales over the past three months relative to the same period last year, while seventeen percent noted moderate decreases and the rest saw no changes. Half of retail contacts reported that sales levels met their expectations, and the other half reported that sales fell short of expectations. In addition, half of retail contacts reported an increase in the sales of low-end products relative to high-end products. The sales outlook for the next three months compared with the same period last year was slightly pessimistic: About half of contacts expect sales to stay the same, twenty-five percent of contacts expect sales to increase slightly, and the remaining contacts expect sales to decrease moderately.

Reports from auto dealers about sales over the past three months were generally positive. Seventy-five percent of the car dealers surveyed saw increases in sales relative to the same period last year, seventeen percent saw decreases, and the rest saw no changes. Similarly, seventy-three percent of contacts reported that sales met or exceeded their expectations. Two-thirds of car dealers reported an increase in used car sales relative to new car sales, and twenty-two percent reported the opposite. The sales outlook for the next three months relative to the same period last year was optimistic: Half of contacts expect sales to increase, while twenty-one percent expect sales to decrease.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the District, while a smaller number of manufacturers reported plans to reduce employment. Firms that manufacture appliances, food, outdoor equipment, automobile parts, refrigeration compressors, safety products, automobiles, roofing shingles, barges, ammo, apparel, and watercrafts plan to hire new employees and expand operations in the District. In contrast, firms that manufacture plastic products and printing products reported plans to lay off workers in the District.

Reports of planned activity in the District's service sector have also been positive since the previous report. Firms in health care benefit management, logistics, pharmaceutical benefit management, information, transportation, and restaurant services reported new hiring and expansion plans. In contrast, firms in information technology, health care, and disability benefit application services reported plans to reduce employment.

Real Estate and Construction

Home sales have continued to increase throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2012, July 2013 year-to-date home sales were up 19 percent in Louisville, 21 percent in Little Rock, 10 percent in Memphis, and 9 percent in St. Louis. June 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 15 percent in Louisville, 24 percent in Memphis, 3 percent in Little Rock, and 18 percent in St. Louis.

Commercial and industrial real estate market conditions have continued to improve moderately. Compared with the first quarter of 2013, the second quarter 2013 industrial vacancy rates declined in Louisville, Little Rock, Memphis, and St. Louis. During the same period, downtown office vacancy rates decreased in Louisville, Little Rock, and St. Louis and increased in Memphis. A contact in Evansville reported new plans for speculative office space, while a contact in Louisville reported new plans for

VIII-3

speculative industrial space. Contacts reported industrial construction plans in southwest Missouri and several commercial construction plans in St. Louis. A contact in Little Rock noted a mixed-use commercial project, while another contact noted an industrial factory expansion in Baxter County.

Banking and Finance

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

Agriculture and Natural Resources

Farmers in the District expect that the corn crop in 2013 will produce, on average, 59 percent more corn than last year. In contrast, the District cotton crop is expected to fall short of 2012 levels both in terms of acres harvested and production. Across the District states, 92 percent of the corn crop was rated in fair or better condition; the sorghum and soybean crops were similarly rated, with 93 percent and 91 percent in fair or better condition, respectively. District coal production improved modestly.

Prices, Wages, and Employment

Fifty-eight percent of contacts indicated that prices charged to consumers over the past three months have stayed the same, while 35 percent indicated that prices have increased relative to the same period last year. In turn, 36 percent of contacts noted that wages over the past three months have stayed the same, while 64 percent noted that wages have increased. Meanwhile, 39 percent of contacts reported that employment levels have remained the same over the past three months, while 42 percent reported that employment levels have increased, compared with the same period last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a moderate pace since the last report. Increased activity was noted in consumer spending, tourism, residential and commercial real estate and construction, manufacturing, energy and agriculture. Growth in residential real estate and construction has slowed somewhat, but is still strong. The mining sector was flat, and professional services were mixed. Hiring announcements were more prevalent than layoff announcements since the last report. Wage increases were moderate. Prices were relatively level since the last report.

Consumer Spending and Tourism

Consumer spending increased modestly. A Montana mall manager reported that sales increased about 5 percent in June and July from a year earlier. Recent same-store sales at a Minnesota-based retailer were up slightly compared with last year. In the Minneapolis area, a mall manager noted that summer traffic and sales increased slightly compared with a year ago, while another mall reported modest decreases in traffic and increases in sales. Truck and car sales during the summer were generally higher at a number of dealerships in Montana, according to an auto dealers association; some dealerships noted that sales were constrained due to a lack of inventory.

Tourism increased from a year ago. Summer tourism activity was strong after a slow start in northern Wisconsin, according to a representative of a chamber of commerce. The number of visitors to Glacier National Park in Montana increased more than 5 percent compared with a year ago. Tourism activity was solid in southwestern Montana. Camping permits and revenue at state parks in South Dakota were up from last year.

Construction and Real Estate

Commercial construction activity continued to grow since the last report. A commercial real estate research firm noted an increase in planned construction of industrial and medical office space in the Minneapolis-St. Paul area. The value of July hotel building permits in Billings, Mont., increased significantly from last year. However, in Sioux Falls, S.D., the value of July commercial permits was down from a year ago. Growth has slowed somewhat but is still strong in residential construction. In the Minneapolis-St. Paul area, the value of residential permits in July was up by 25 percent from July of 2012. The value of July single-family residential building permits in Billings was up 24 percent

from last year; multifamily building increased by \$23 million. However, the value of July residential building permits in Sioux Falls fell from 2012.

Activity in commercial real estate markets increased since the last report.

A commercial real estate professional noted an increase in transactions, including a portfolio of retail centers, a large distribution center, an office building, a mixed-use property and a hotel in the Minneapolis-St. Paul area. Growth has slowed somewhat but is still strong in residential real estate markets. July home sales were up 13 percent from the same period a year ago in Minnesota; the inventory of homes for sale increased by 1 percent, and median sale prices rose 13 percent. In the Sioux Falls area, July home sales were up 25 percent and inventory was down 11 percent, but the median sale price decreased 3 percent relative to a year earlier.

Services

Recent activity at professional business services firms was mixed, depending on the service. An information technology consulting contact noted continued strong demand. A health care consulting contact said business was up. Mortgage and real estate title company contacts reported an increase in purchase activity but a decrease in refinance activity. An architectural contact noted flat activity since the last report. A large Minnesota-based law firm noted a slight decrease in July billable hours compared with a year ago primarily due to reduced merger and acquisition business.

Manufacturing

The District manufacturing sector continued to grow moderately. A July survey of purchasing managers by Creighton University (Omaha Neb.) indicated that manufacturing activity increased in Minnesota and the Dakotas; the pace of growth rose in South Dakota but declined in North Dakota and Minnesota. An electronics manufacturer recently broke ground on a new plant in Minnesota. However, a large beef slaughter and packing facility in South Dakota filed for bankruptcy in July.

Energy and Mining

Growth in the energy sector continued, while mining activity was flat. Oil and gas exploration activity decreased slightly in mid-August in North Dakota and Montana from a month earlier. The Bureau of Land Management in South Dakota recently auctioned off 50 oil and gas leases, indicating that exploration is expanding into the area, but activity is expected to be modest relative to North Dakota. An electricity utility completed

multiyear upgrades to a nuclear power plant in Minnesota, at a total cost of nearly \$600 million. Two facilities that will serve Canadian oil sands development are under construction in Montana. July output at District iron ore mines was slightly above its year-earlier levels after several slower months. Some Minnesota and Wisconsin mines that produce sand for hydraulic fracturing have idled recently.

Agriculture

Conditions for District agricultural producers improved since the last report. While progress remains slower than average, recent warm and dry weather has helped crops catch up, as the majority of the corn, soybean and spring wheat crops are listed in good or excellent condition in all District states. According to the Minneapolis Fed's second-quarter (July) survey of agricultural credit conditions, 90 percent of respondents said farm incomes increased or held steady over the previous three months, with similar results for household and capital spending. Despite the wet beginning to the growing season, USDA estimates indicate that acres of corn and soybeans planted in District states saw only a small decline compared with last year. North Dakota wheat acreage fell nearly 1 million acres, or 12 percent, from last year. Prices received by producers increased in July from a year earlier for cattle, hogs, milk, eggs, chicken, hay and potatoes; prices for corn, wheat, dry beans and turkeys fell, while soybean prices were flat.

Employment, Wages and Prices

Hiring announcements were more prevalent than layoff announcements since the last report. A new information technology support center broke ground in South Dakota that will bring 200 jobs to the state. In Minnesota, a manufacturer recently completed an expansion of its headquarters, with plans to hire 200 new workers over the next few years. Another manufacturer recently purchased a new industrial building in Minnesota and will hire 100 new workers. A representative of a Minnesota staffing firm noted continued solid demand for temporary work placements. Some district manufacturers were having difficulty filling job openings for technical positions due to a lack of suitable workers. In contrast, the aforementioned South Dakota meat packer laid off about 250 workers and a bank in Minnesota is laying off 160 employees due to slowdown in mortgage refinancing activity.

Wage increases were moderate. A Minnesota county recently offered a contract to union employees with wage increases of 4.5 percent, spread over three years.

Prices were relatively level since the last report, with some exceptions noted. Recent fertilizer prices were down from a year ago, while lumber prices were up about 10 percent compared with last year. Metals prices increased somewhat since the last report. Representatives of health systems with operations in the District noted that medical cost inflation subsided recently, and they expect it to remain relatively subdued going forward.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded moderately in July and early August with further gains anticipated during the coming months. Strong retail and auto sales fueled consumer spending with positive expectations for future sales. District manufacturing activity picked up, and some plant managers were hiring additional workers. Residential and commercial real estate markets continued to strengthen with an upswing in construction and a rise in sales. District banks reported improved loan quality and stable deposits, but slightly weaker loan demand. Agricultural growing conditions were affected by drought, but lower farm income expectations did not dampen farmland prices. District energy activity remained solid with stronger natural gas exploration offsetting a slight drop in oil drilling. The price of raw materials continued to trend higher, but finished goods prices generally held steady. More contacts commented that difficulty finding qualified labor, particularly in highly skilled fields, was placing modest upward pressure on wages. Most firms reported little or no effect on business activity from sequestration budget cuts, though some manufacturers reported a decline in defense orders and hotels noted fewer government employees were traveling.

Consumer Spending. Consumer spending strengthened in July and early August and was expected to rise further in coming months. District retailers reported higher sales, particularly for large-ticket home goods such as mid-priced appliances and furniture as well as seasonal items and clearance merchandise. However, sales of premium goods such as jewelry and high-end appliances slowed. Auto dealers reported somewhat easier access to credit and a rise in sales that was expected to continue in coming months. Economy cars and used vehicles sold well with strong demand for trucks in rural areas. Restaurant sales increased, as more diners paid higher average check amounts. Tourism activity remained solid through the summer, though gasoline sales were down from year-ago levels. After rising during the last survey period, District hotel owners reported a moderate drop in occupancy despite previous reductions in average room rates. Some hoteliers attributed fewer bookings to less government travel.

Manufacturing and Other Business Activity. Manufacturing activity rose moderately in July and early August while sales at high-tech service firms and transportation firms generally held steady. Following a downturn in June, District factory activity strengthened with increased production, especially for food processing, machinery and metal manufacturers. Some

manufacturers noted a drop in orders from defense contractors due to federal spending cuts. Overall, however, the volume of new orders rose in July and was expected to strengthen during the next six months. In addition, a rise in the volume of shipments reduced order backlogs and finished goods inventories held steady. Plant managers indicated modest hiring and capital spending plans with solid expectations for future factory output. After slowing during recent survey periods, transportation activity stabilized, despite an upswing in prices charged. Several trucking firms noted more shipments of refrigerated goods. Sales at high-tech firms dipped during the survey period but were expected to bounce back during the next three months.

Real Estate and Construction. Residential and commercial real estate activity strengthened further in July and early August and was expected to remain robust through the fall. Home starts rose, though some builders were concerned that a shortage of skilled labor could constrain growth. Lot prices were expected to increase with tighter supplies of available sites. Sales at construction supply firms were up and some building materials, particularly drywall and roofing shingles, were in short supply. A rise in home sales supported higher home prices even with an uptick in the number of houses on the market. Residential mortgage lenders reported solid demand for home purchase loans but a sharp drop in refinancing activity that was attributed to higher interest rates. Commercial construction escalated during the survey period and was expected to expand further in the coming months. Commercial real estate prices and rents moved higher as sales activity picked up and vacancy rates trended down. Developers reported little change in access to credit.

Banking. In the recent survey period, bankers reported slightly weaker overall loan demand, improved loan quality, and stable deposit levels. Respondents reported steady demand for commercial real estate, consumer installment loans, and commercial and industrial loans, while demand for residential real estate loans declined. Bankers noted a moderate improvement in loan quality since the last survey period with additional quality improvements expected during the next six months. Credit standards remained unchanged in all major loan categories and respondents reported stable deposits.

Agriculture. Farm income prospects dimmed since the last survey period as drought persisted and crop prices fell. While yields varied, winter wheat production was below average across the District. In some areas without irrigation, dry weather hindered corn development and weakened plants against disease. Much of the District's corn crop was considered in fair

condition although the soybean crop was still rated in mostly good condition. Crop prices fell in August on higher global production estimates. Even with a drop in feed prices, losses continued for most feedlot operators as cattle prices moved lower. In contrast, a rebound in hog prices returned profits to some hog producers. Demand for farm operating loans strengthened with high input costs and reduced farm income. Despite weaker farm income prospects, farmland values continued to set records, with demand for farmland driven in part by high levels of wealth in the farm sector.

Energy. District energy activity remained solid in July and early August and was expected to strengthen somewhat in the coming months. The number of active natural gas rigs in the District edged up, particularly in Wyoming and Colorado, despite further declines in natural gas prices. Natural gas prices, however, were expected to rise seasonally as increased demand for winter heating draws down supplies. In contrast, the number of active oil rigs in the District tapered during August even though oil prices have recently risen. Some District contacts noted a lack of qualified labor and difficulty obtaining financing were constraining drilling activity. Several energy firms were also concerned that government budget cuts due to sequestration could cause further slowdowns in permitting. Wyoming's coal production through early August remained below year-ago levels. After falling in July, ethanol production rose modestly in early August when corn prices fell.

Wages and Prices. Wage pressures edged up during the survey period, raw materials prices trended higher, and finished goods prices generally held steady. On-going shortages of high-skilled labor in some specialized industries, particularly construction, energy, high-tech and transportation, placed slightly more upward pressure on wages during the survey period. Other firms, primarily in retail, leisure and hospitality industries, were beginning to raise wages to attract salespeople, housekeepers, maintenance and clerical staff. Builders and construction supply companies noted higher prices for construction materials in short supply. Some transportation companies charged more for freight hauling in light of higher input costs. The cost of raw materials for manufacturing rose at a similar pace compared to the previous survey period and most finished goods prices were flat. Despite an ongoing rise in food costs, most restaurant owners were not increasing menu prices. Retailers held selling prices steady and did not anticipate raising prices during the next three months. As occupancy rates fell, hotel operators planned to lower average room rates.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. While many respondents noted steady demand, there were more noting improving versus declining demand. Sales grew for firms in residential construction, retail, accounting, fabricated metals, food and kindred products, and automobile dealerships. Financial firms and paper producers reported a decline in demand. The energy sector noted some flattening of activity at high levels. Drought continued to plague the region although recent rains have slightly improved growing conditions in some areas.

Prices Most responding firms said that prices were stable since the last report. Contacts in oil, paper and beef production reported slight increases in prices while law firms and retailers noted slight price reductions. Fabricated metals producers and accounting firms said that increasing cost pressures may result in price increases in the coming months. Contacts in the residential housing sector noted that overall home prices in most major metros continued to rise at a moderate to fast pace. Energy prices were mixed, with natural gas prices holding steady and the price of West Texas Intermediate crude rising to an average of \$104 per barrel over the past six weeks. Gasoline and diesel prices declined modestly.

Labor Market Employment was flat to slightly higher at most responding firms with few reports of layoffs. Wage pressures remained subdued except in the case of a few professions such as information technology and engineering. Construction-related contacts noted some labor shortages, although there were no reports of wage pressures. Contacts in auto dealerships, primary metals, high-tech manufacturing and accounting firms said that employment was up slightly. Retailers reported flat employment growth, except in oil and gas producing areas where jobs continued to grow. Financial firms reported a slight decline in jobs.

Manufacturing Construction-related activity was mixed, according to respondents. Some contacts reported flat to slightly improved demand, although one contact noted strong demand from Houston infrastructure projects. Fabricated metals producers noted demand was up due to oil and gas activity and outlooks were positive. Primary metals producers said demand held steady, but outlooks were mixed, with some concern for the rest of the year.

Food producers said demand picked up since the last report and the pickup was above normal seasonal increases. Paper producers noted weak demand and uncertain outlooks.

Respondents in high-tech manufacturing said that growth in demand remained stable at a modest pace since the last report. Demand for tablets and cloud-related products continued to grow strongly while personal computer-demand remained weak. One contact noted a pickup in U.S. demand for communications infrastructure. Employment was reported as flat to slightly increasing. While overall wage pressures were modest, in some locations, such as Austin, respondents said that competition for

skills such as electrical engineering was driving wages higher and causing employees to change jobs more frequently. Respondents remain cautiously optimistic about growth over the next six months with one respondent noting that growth has become more persistent in recent quarters

Retail Sales Retail sales picked up since the last report, spurred in part by back-to-school shopping. According to two national retailers, Texas sales continued to outperform the national average. Contacts' outlooks through the end of the year were positive.

Automobile sales picked up over the reporting period, and demand was up from year-ago levels. Inventories continued to vary by manufacturer. Selling prices remained stable, but contacts expect an increase with the new model year this fall. Contacts' outlooks for the rest of the quarter and the rest of the year were optimistic.

Nonfinancial Services Staffing firms' reports were mixed, with one contact reporting near-record levels of direct hiring, especially in engineering and healthcare, and other contacts reporting declines in hiring in manufacturing and logistics. Outlooks were also mixed.

Legal firms reported modest growth in demand for services, a positive sign after mixed growth in the second quarter. There was a continued absence of transactions and litigation work—with the exception of robust intellectual property litigation demand. Rates were unchanged, and collections were good, although not as good as last year. Employment was roughly flat, with many partners moving laterally, but some firms were actively seeking experienced associates. A small number of summer clerks were offered jobs starting next summer. Associate compensation at large firms rose to match associate compensation at New York firms. The outlook is for modest hiring and growth over the next two months, with some recent growth in transactions work spurring more optimism

Accounting demand remained strong and exhibited growth across the board. Rates remained stable, and wages have increased or will increase moderately. Firms continued to hire, and headcounts were up. A San Antonio contact noted it was hard to find good, experienced candidates because of competition from other firms. The outlook is for a strong close to the quarter with robust backlogs for the next six months.

Transportation service firms noted that cargo volumes were mixed, with increases in railroad and container volumes, but flat air cargo and declining small parcel volumes. Rail volumes were boosted by robust growth in petroleum shipments.

Airline contacts said demand was seasonally down but bookings and yields were up year-over-year. Demand was strong over the summer and the outlook is quite optimistic compared to last year.

Construction and Real Estate Single-family housing activity remained strong over the past six weeks according to contacts. Most responding firms noted that new home construction has increased in response to robust sales, especially in the Houston, Dallas and Austin metro areas. Some contacts

expressed concern about the high level of multi-family construction in major Texas metros, but overall apartment occupancy rates improved since the last report. Contacts are mostly optimistic in their forecasts through year-end.

Office and industrial construction was reportedly rising, with several announced projects in the Dallas/Fort Worth and Houston areas. Overall, Texas commercial real estate markets continue to fare well compared to other parts of the U.S. Contacts noted moderate to strong growth in rental rates in most commercial real estate sectors as leasing activity has increased.

Financial Services Financial institutions experienced a modest decline in loan activity and the level of loan demand was soft. Demand for real estate loans, especially in the San Antonio and Austin, areas was good, with the exception of weakness in multi-family real estate lending. Contacts reported loan quality was good and continued to improve and borrowers continued paying down debt. Loan pricing remained competitive. Deposit volumes remained strong and grew at a moderate pace, although slower than a year ago. Deposit rates were mostly unchanged, with increases on some long-term certificates of deposit. The outlook for financial institutions is for continued softness in lending; however, there is a good pipeline for loans, and there is hope for more mergers and acquisitions activity according to responding firms. The finalized Basel III regulations were a relief to community bankers.

Energy Drilling activity was little changed at high levels. Global demand held steady. 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. The recent increase in oil prices has increased the cost advantage of domestic petrochemicals firms.

Agriculture Drought conditions continued to affect most of the district, although the severity in several areas was eased by unusually good July rainfall. Farmers began harvesting row crops, and conditions were mostly fair to good. The cotton crop is expected to be smaller than previously anticipated, causing cotton prices to improve slightly. Feeder cattle prices rose over the reporting period because of tight supplies and lower feed costs.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of early July through late August. Price inflation was subdued for most final goods and services, and upward wage pressures were very modest. Retail sales rose on net, while demand for business and consumer services was more mixed. District manufacturing activity edged up. Agricultural production and sales expanded. Demand for housing strengthened, and commercial real estate activity firmed. Reports from financial institutions indicated that loan demand increased slightly.

Prices and Wages

Price inflation was subdued for most final goods and services. Reports indicated stable prices for steel and scrap metal products. Technology industry contacts reported that prices were slightly lower than had been anticipated for some business software and for computer hardware inputs. Hospitality sector contacts noted large price declines for linens, versus persistent price increases for a variety of food products.

Upward wage pressures were very modest overall. Slack in the labor market held back wage gains in most sectors, occupations, and regions. Reports indicated that overall wages at technology firms have been mostly stable or modestly increasing. 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 in these slots.

Retail Trade and Services

Retail sales rose on net, and most contacts' outlooks for future consumer spending improved slightly since the prior reporting period. Technology companies reported increased sales overall, with growth on the business side outpacing gains in consumer demand. However, grocery and apparel retailers noted soft sales. These contacts pointed to evidence of households taking advantage of attractive financing opportunities and devoting their budgets to big-ticket items, such as housing and autos. Large inventories at many dealerships fueled a robust pace for new and used automobile sales, especially light

truck sales. Contacts indicated strong demand for hobby game products, as the core customers tend to work in relatively high-wage math and science professions.

Demand for business and consumer services varied across sectors. Reports indicated that many service providers increased capital expenditures in anticipation of stronger demand. However, contacts noted that recent demand has been tepid for elective health-care and other discretionary services, including restaurant dining. Contacts also noted soft demand and downward pressure on fees for legal services. Travel and tourism activity in Hawaii maintained its solid pace of growth, and after slipping earlier in the year, tourist activity in Southern California picked up during the summer months. Contacts noted strong convention attendance in Las Vegas but some weakness in leisure travel.

Manufacturing

District manufacturing activity edged up during the reporting period of early July through late August. Demand for semiconductors increased, as indicated by modest growth in new orders and sales. Although capacity utilization for electronic components in general held steady, contacts noted that demand was somewhat subdued. Demand for commercial aircraft remained solid. Defense manufacturers noted more muted demand due to the ongoing effects of the federal sequester. Biotech drug manufacturing increased modestly. Shipments of steel products used primarily in nonresidential construction continued to increase, and steel producers reported that overall capacity utilization ticked up a bit further. In particular, reports indicated that capacity utilization for steel manufacturing was stronger for automobile and aircraft-related inputs than for nonresidential construction inputs. Many contacts expect manufacturing industry conditions to improve slightly in the second half of the year relative to the first half.

Agriculture and Resource-related Industries

Sales of agricultural items and resource-related production activity expanded in the District. Demand was generally strong for most crop and livestock products. However, relatively light traffic at fast-food restaurants limited sales of some vegetables. In addition, some grain producers expect slightly lower profits due to price declines. Despite a modest decline in demand for various oil products, contacts

expect overall sales to increase in the medium term. Refinery utilization rates and gasoline production increased. Utility providers reported that energy sales to aerospace and housing-related firms were robust.

Real Estate and Construction

Demand for housing strengthened further, and commercial real estate activity was stable or improved. Although levels remained significantly lower than in the pre-recession period, both home sales and house prices climbed further relative to the prior reporting period in many District cities. In some areas, demand for new homes substantially exceeded the supply, and shortages of construction workers held back the pace of new home construction activity. Multifamily residential construction projects increased. Rental rates for commercial real estate edged up as occupancies climbed. Contacts in some major metropolitan areas noted declining commercial real estate inventories and expressed near-term concerns about capacity constraints.

Financial Institutions

Financial institution reports indicated that loan demand increased slightly on net. Most contacts reported increased lending relative to a year earlier, but some reported a slight downtick more recently. Contacts noted that mortgage origination levels were mostly stable despite the increase in mortgage interest rates, although the number of new applications has dropped a bit in some areas. Some contacts expect the pace of refinancing activity to slow as well. Reports highlighted ample bank liquidity and substantial competition for high-quality commercial borrowers. In the District's Internet and digital media sectors, mergers and acquisitions activity and venture capital activity grew in terms of both deal value and volume. However, the pace of initial public offerings remained weak, and private equity activity was flat.