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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

May 2014

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

MAY 2014

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SUMMARY*

All twelve Federal Reserve Districts report that economic activity expanded during the current reporting period. The pace of growth was characterized as moderate in the Boston, New York, Richmond, Chicago, Minneapolis, Dallas, and San Francisco Districts, and modest in the remaining regions. Compared with the previous report, the pace of growth picked up in the Cleveland and St. Louis Districts but slowed slightly in the Kansas City District.

Consumer spending expanded across almost all Districts, to varying degrees. Non-auto retail sales grew at a moderate pace across most of the country: Although improved weather generally gave a boost to business, lingering wintry weather in the Northeast continued to weigh on sales in parts of the Boston and New York Districts. Increasingly strong new vehicle sales were reported by more than half the Districts, with most other regions seeing steady sales; demand was generally reported to be less robust for used vehicles than for new vehicles. Tourism was steady to stronger across most of the country—particularly in most of the eastern seaboard Districts.

Activity in the service sector, excluding finance, grew across most reporting Districts, though New York and San Francisco reported a mixed performance. Boston, Kansas City, and San Francisco noted particular strength among technology firms. Transportation activity strengthened in most Districts reporting on that sector, with Richmond and Atlanta observing brisk growth in port activity, and Cleveland noting a rebound from weather-related weakness in the prior report. Manufacturing activity expanded throughout the nation, and at an

* Prepared at the Federal Reserve Bank of New York and based on information collected on or before May 23, 2014. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

increasingly strong pace in a number of Districts—notably along the East Coast, as well as in the St. Louis and Kansas City Districts.

Residential real estate activity was mixed across the country, with some reports of low inventories constraining sales—specifically in the Boston, New York, and Kansas City Districts. Still, home prices continued to increase across most of the country, while the markets for both condos and apartment rentals were mostly robust. Residential construction activity was mixed, with half the Districts reporting increases but a few indicating some weakening in activity; multi-family construction remained particularly robust. Both non-residential construction activity and commercial real estate markets were generally steady to stronger since the last report.

Overall lending activity increased throughout the nation. Roughly two-thirds of the Districts reported rising loan demand, with particular strength reported in New York and San Francisco. Credit quality and delinquency rates generally improved, while credit standards were mostly unchanged.

Among Districts reporting on agriculture, drought conditions caused problems in the Dallas and San Francisco Districts, and, to a lesser extent, in the Chicago District; conversely, Atlanta and Minneapolis reported that excessive moisture delayed plantings. Energy industry activity strengthened in most Districts, though coal production was steady in Cleveland and declined in the Richmond District.

Labor market conditions generally strengthened in the latest reporting period, with hiring activity steady to stronger across most of the country, and several Districts reporting shortages of skilled workers. In most Districts, wage increases have remained generally subdued, though Chicago and Dallas noted increased costs for health benefits. Prices of both inputs and finished goods and services were mostly steady to up slightly.

Consumer Spending and Tourism

Consumer spending grew at a moderate pace over the latest reporting period, with a mixed performance among non-auto retailers but brisk growth in vehicle sales and moderate growth in tourism. Non-auto retail sales were characterized as mixed and generally lackluster in the Boston, Atlanta, and San Francisco Districts, but growing modestly or moderately across the rest of the country. Kansas City noted some deceleration in sales. While lingering cold and wet weather was cited as somewhat of a negative factor in the Boston and New York Districts, it was characterized as less of a restraint than earlier in both these Districts and in the Cleveland, Chicago, and Dallas Districts. A number of Districts also noted that the later Easter combined with the late arrival of warm weather had the effect of delaying the spring shopping season. Chicago, Kansas City and San Francisco reported relative strength in spending on home-related merchandise, while St. Louis mentioned strong restaurant business.

New vehicle sales were generally described as robust in the latest reporting period, while sales of used cars and trucks continued to lag. New York, Philadelphia, Cleveland, Atlanta, St. Louis, Dallas and San Francisco reported moderate to robust growth in new vehicle sales, while Richmond, Chicago, Minneapolis, and Kansas City described sales as generally steady or mixed. Cleveland and San Francisco reported some growth in sales of used vehicles, while New York reported a mixed performance. Auto dealers generally expressed optimism about the near term outlook.

Tourism was seen as fairly strong across most of the country in recent weeks. The Boston, New York, Richmond, Atlanta, Minneapolis Districts reported increasingly robust tourism activity, and Philadelphia noted slight growth; Dallas observed a pickup in passenger airline demand. On the other hand, tourism activity was seen weakening somewhat in the

Kansas City and San Francisco Districts. New York and Philadelphia attributed some of the pickup to the marked improvement in weather driving pent-up demand, Boston credited the 2014 Marathon for much of the strength in April, and Atlanta cited strength in international visitors.

Nonfinancial Services

Nonfinancial services activity generally strengthened since the previous report. The Philadelphia, Richmond, Minneapolis, Kansas City, and Dallas Districts reported that service-sector activity expanded, on balance, while such activity was reported to be mixed in the New York and San Francisco Districts. St. Louis noted that reports of planned service sector activity have been positive. Business activity strengthened for technology service firms in the Boston, Kansas City, and San Francisco Districts, while Dallas reported that demand for accounting services remained steady at a high level. Activity in the food services industry continued to decline in the San Francisco District.

Reports on goods transportation services were largely positive. Increased shipments and cargo volumes were noted in the Cleveland, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas Districts. Following a difficult winter, contacts in Cleveland reported strengthening demand for shipments of motor vehicles, chemical products, and construction-related materials. Port activity grew briskly in the Richmond and Atlanta Districts, particularly for auto-related products and containerized cargo. Railroad shipments increased in the Atlanta and Minneapolis Districts, while intermodal traffic expanded in the Atlanta and Dallas Districts. Airline passenger demand improved in the Dallas District.

Manufacturing

Manufacturing activity expanded in all twelve Districts since the previous report, with a pickup in the pace of growth reported in several Districts. Activity expanded robustly in the Boston, New York, Atlanta, and Kansas City Districts, while a more modest pace of growth was reported by Chicago, St. Louis, Philadelphia, Cleveland, Dallas, and Minneapolis. Activity expanded more slowly in the Richmond and San Francisco Districts. Growth was especially strong for several Districts in activity related to motor vehicles, aerospace, and metals. By contrast, construction-related manufacturing activity was mixed. Philadelphia reported weakness in this sector, and Chicago and Kansas City noted some strength, while demand for construction-related materials was mixed in the Dallas District. Demand for semiconductors increased modestly in the San Francisco District. Chicago and Cleveland noted strength in energy-related industries, and refinery utilization rates rose in the Dallas District. Steel production was up slightly in Cleveland, where activity related to oil and gas was also reported to be strong. The Richmond District noted declining sales for machinery, textiles, rubber and plastics, and San Francisco noted a slowing in the pace of new orders among defense-related manufacturers.

Real Estate and Construction

Residential real estate activity has been mixed since the last report, with a lack of inventory at times cited as a constraining factor. Boston, New York, and Kansas City indicated that existing home sales were being held back due to low or dwindling inventories. Sales rose modestly in the Cleveland, Richmond, Atlanta, Chicago, and Dallas Districts, with inventories described as low in Richmond and Chicago and declining in Cleveland. Sales activity, however, softened in the Philadelphia, St. Louis, Minneapolis, and San Francisco Districts, though Philadelphia did note some signs of improvement in May. San Francisco attributed some of the weakness to severe weather. Home prices continued to increase across most of the Districts; Boston reported some pullback in prices of single-family homes, though condo prices in that District, as well as in New York, rose. New York, Chicago, and

Dallas reported strengthening demand for apartment rentals, whereas Boston noted some slackening in demand.

Homebuilders gave mixed reports on new home sales and construction in recent weeks: Residential construction strengthened, to varying degrees in the New York, Richmond, Atlanta, Chicago, Kansas City, and Dallas Districts. However, Philadelphia, St. Louis, and Minneapolis indicated some weakening in new home sales and construction. Overall residential construction activity was mixed across the San Francisco District, though contacts there expect activity will increase over the next year. Both Boston and New York reported a good deal of recent multi-family development at the high end of the market, while Cleveland, Richmond, Atlanta, Chicago, and Dallas noted strength in multi-family construction more generally.

Non-residential construction activity was steady to stronger in most Districts over the latest reporting period, with strengthening reported in the Boston, St. Louis, and Kansas City Districts. Cleveland described pipeline activity as strong, and San Francisco noted that a number of public and commercial high rise projects have been announced or are underway. In contrast, Minneapolis reported a decline in non-residential construction activity, and Philadelphia characterized it as steady at a low level; Chicago described activity as mixed—with office construction weak but industrial and some segments of retail fairly strong. The commercial real estate market was mostly stronger since the last report. Leasing activity and vacancy rates improved in the Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts, and were generally steady in the Boston, New York, Philadelphia, and St. Louis Districts. Dallas described market conditions as robust.

Banking and Financial Services

All Districts reporting on banking noted that lending activity increased. Loan demand was reported as strong by New York and San Francisco, while more modest growth was reported by Philadelphia, Richmond, Chicago, St. Louis, Kansas City, and Dallas. Commercial and industrial loans grew in the Philadelphia, Richmond, Chicago, and Kansas City Districts. On the consumer lending side, several Districts noted that the demand for auto loans was particularly strong, including Cleveland, Atlanta, Chicago, Dallas, and San Francisco, though such lending was reported to be up only slightly in the St. Louis District. Residential real estate lending increased in the Chicago, Kansas City, and Dallas Districts, while mortgage lending activity was reported as holding steady in the Atlanta and San Francisco Districts. By contrast, both Cleveland and Richmond reported slightly weaker mortgage lending activity, and New York and Richmond reported a decline in mortgage refinancing.

Credit quality was reported as strong in the San Francisco District, loan quality improved in the Philadelphia and Dallas Districts, and delinquency rates were somewhat lower in the New York, Cleveland, and St. Louis Districts. Credit quality was reported as stable by Richmond and Kansas City. Credit standards were seen as largely unchanged in the New York, Philadelphia, Cleveland, and Kansas City Districts, while St. Louis reported that credit standards for commercial and industrial loans had eased slightly.

Agriculture and Natural Resources

Agriculture conditions proved challenging in many Districts, with drought conditions reported by some Districts and excessive moisture reported in others. Drought conditions existed in parts of the San Francisco District, particularly in California and Arizona, resulting in a reduction in crop plantings and reduced herd sizes. Dallas also noted widespread drought conditions, especially in the Texas panhandle, as did the Chicago District in parts of Iowa. On the other hand, rains delayed plantings of crops in parts of the Atlanta and Minneapolis Districts. Planting progressed well overall in the Chicago District and in Idaho as reported by San Francisco. Minneapolis and San Francisco reported a loss of hogs due to a fatal virus, contributing to higher hog prices. More generally, low cattle supplies and strong demand resulted in high beef prices in Minneapolis and Kansas City. Both Kansas City and Dallas reported problems with the quality and quantity of the winter wheat crop, though winter wheat crops were generally in good condition in the St. Louis District.

Activity in the energy industry generally increased since the previous report. Atlanta and San Francisco reported that crude oil production expanded strongly, and Dallas noted that the demand for oilfield services was robust. Natural gas production climbed in the Richmond and Atlanta Districts. Minneapolis highlighted a number of recent or planned projects to expand energy production capacity. St. Louis reported that coal production was up from year ago levels, while coal production held steady in the Cleveland District but fell in the Richmond District.

Employment, Wages and Prices

Labor market conditions generally improved since the previous report. The Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas Districts indicated that employment levels were flat to up modestly. Philadelphia reported that some new hiring occurred but noted that firms remain cautious, while improvement in the labor market has led to increased competition for workers in the Kansas City District. Contacts in the Cleveland and Chicago Districts noted an increase in demand for some temporary workers, while the Atlanta District reported a small increase in workers transitioning from temporary to permanent positions. Several Districts continued to report that employers were having difficulty finding skilled workers.

Most Districts reported that wage pressures remained subdued since the previous report, although an increase in the cost of health insurance was noted in Chicago and Dallas. According to reports from the New York, Philadelphia, Richmond, Minneapolis, Kansas City, Dallas, and San Francisco Districts, to the extent that wage increases were observed, they were concentrated among highly skilled workers in information technology, engineering, professional services, and some of the skilled trades.

Price pressures were said to be contained, as most Districts reported that both input and finished goods prices were little changed or up only slightly since the previous report. However, high or rising prices for some agricultural commodities, construction materials, energy products, and precious metals were cited by some Districts. Contacts in the Boston, Cleveland, Chicago, Dallas, and San Francisco Districts noted higher food prices, particularly for meat and dairy products. By contrast, Chicago reported that corn, wheat, and hog prices declined, and Dallas reported that fuel costs declined for a transportation services firm.

FIRST DISTRICT – BOSTON

Business activity generally continues to increase on a year-over-year basis in the First District, but performance varies across sectors. Manufacturers and tourism contacts note strong results, software and IT services firms cite strengthening sales, staffing services respondents indicate activity has picked up recently, while retail reports are somewhat mixed. In real estate, commercial conditions are largely unchanged since the last report, while single-family home sales and prices declined year-over-year in March in four of the six New England states. Contacts in most sectors indicate that price pressures are minimal; a few manufacturers mention high or rising prices for selected inputs. Most responding firms say they are neither augmenting nor cutting headcount; some note that jobs in selected occupations remain difficult to fill. Outlooks remain quite positive, even in sectors where recent results have not been strong, but apparently not sufficiently positive to result in plans for increased hiring.

Retail and Tourism

Retail sources contacted for this round report comparable store sales results ranging from an 8 percent decrease to a 10 percent increase year-over-year. One chain indicates an improving trend, with first quarter sales down 8 percent from a year earlier and April sales down 5 percent; they expect this month to end with sales 1 percent to 2 percent below May 2013.Another contact reports that April sales were up 10 percent but predicts that May will finish 5 percent to 10 percent above last year. Apparel sales have softened a bit, with some of this decline attributed to cooler weather lingering in the northeast; one contact notes that with the weather finally getting warmer over the last few weeks, spring and summer clothing sales have picked up. Furniture sales are down a bit. Some inventories are a bit higher than anticipated. Despite these rather mixed results, contacts continue to believe that the U.S. economy is improving—one source terms the recent weakness “just a hiccup.”

Boston hotel revenues were up 4.8 percent year-over-year in 2014:Q1. In April, Boston-area hotel occupancy rates were above 90 percent, which is unusually high, and observers say they expect hotel revenues to exceed those posted for April 2013. Some of this increase is due to business related to the 2014 Marathon, which had almost 36,000 entrants compared to about 17,600 in 2013. Boston area restaurants also did well in April, although final numbers are not yet in. For 2014:Q1, Boston restaurant revenues were up 4.9 percent over 2013:Q1—this breaks down as flat in January, a 3.4 percent increase in February, and a 7.6 percent increase in March. Attendance at Boston area museums and attractions was down in 2012 and 2013, but attendance and revenues in 2014:Q1 were up 3 percent over 2013:Q1.

Manufacturing and Related Services

First District manufacturers report that business conditions in the sector are strong. Of the 13 firms contacted this cycle, 12 report higher year-on-year sales and the one firm with a decline attributes the slow sales to weather and says that underlying sales growth is exceptionally strong. Contacts’ only serious concerns involve international sales. A firm that sells building equipment reported “Europe is still a mess.” Two contacts express some concern about China, saying that growth had slowed or was slower than expected. For many companies, new products are the engine of growth. For example, a contact in the dairy industry said that almond milk will generate significant growth.

Of the 12 firms reporting information about inventories, six cite flat inventories, five note higher inventories and only one saw a reduction. The reasons for higher inventories are varied; a manufacturer of aircraft engines and a manufacturer of computer storage devices both attribute the higher inventories to new product introductions. None of our contacts view the rising inventories as cause for concern.

Most of our contacts report both flat prices and flat costs. One exception is a dairy firm citing an "all time high" for the price of raw milk. Two contacts indicate that energy prices are up. A manufacturer of aircraft engines notes that the prices of two key inputs, nickel and titanium, have risen and notes the possibility that the problems are due to turmoil in Russia, a key supplier of both metals. So far, the contact says the problems have affected prices but have not disrupted supply.

Most contacts report flat employment and wage growth in line with expectations, but there are some exceptions. Two firms report staff reductions. One of them, a manufacturer of business equipment, has recently concluded a major restructuring of the firm as their legacy business of providing equipment for physical mail has declined. Two firms, a software company and a manufacturer of storage devices, report that the market for software engineers is exceptionally tight. None of our contacts reports significant revisions to their capital spending plans. From almond milk to aircraft engines, the main driver of new spending appears to be new products. All 13 responding firms say their outlook for the rest of the year is positive.

Software and Information Technology Services

New England software and information technology services firms report strengthened business activity through May, with year-over-year revenue growth in the 5 percent to 20 percent range. Contacts attribute this growth to strong demand for technology services, increased consumer spending, and improvements in the manufacturing sectors of the United States and Western Europe. In general, firms are slightly incrementing headcount; two such expansions were a result of acquisitions. Wages largely remain flat, with one firm awarding a merit increase in the 3 percent range. There are no signs of increases in selling prices. Looking forward, New England software and IT contacts remain cautiously optimistic, expecting that revenue growth will continue as long as the global economy remains stable. Concerns include a weakening Chinese economy and general macroeconomic stability.

Staffing Services

New England staffing contacts report higher growth in recent months, with quarter-over-quarter revenue increases in the double-digit range and generally flat year-over-year growth. While the region's inclement winter weather contributed to soft business activity through the first quarter, billable hours increased by early April as the weather improved. Contacts generally report an uptick in labor demand, concentrated in the legal, internet technology, production, welding, and machine operation industries. However, one contact observes decreases in labor demand in the healthcare sector, particularly for medical assistants. Labor supply remains tight for specialized roles in the welding, web development, intellectual property, and internet technology spheres. As a result, firms continue to expand their recruiting and social media efforts to attract new talent and gain a larger share of the existing applicant pool. Bill and pay rates have largely held steady, although two contacts note slight increases in both rates. Looking forward, contacts continue to be optimistic, and anticipate that growth will continue through the next few months.

Commercial Real Estate

Conditions in the First District's commercial real estate market are largely unchanged since the last report. In Boston, office leasing activity is stable. Demand for space in the Seaport District, Back Bay, and Kendall Square remains very strong, while a few buildings in the Financial District still have elevated vacancy rates. Some new apartment buildings in Boston appear to be having trouble achieving the rents and occupancy levels they had hoped for. Contacts attribute this difficulty to the fact that a large number of high-end units came on the market in a short period of time. Some investors are reportedly starting to balk at Boston's high commercial real estate prices, but overall investor interest in the city remains very high. The growth pace of multifamily construction slowed in greater Boston while planned office construction increased, leaving overall construction activity roughly stable year-over-year.

In Hartford, office leasing fundamentals are steady; foot traffic increased but did not translate into increased deal volume. Also in the Hartford area, construction activity increased over last year in both the multifamily and mixed-use sectors, driven in part by state and local funding and tax credits. Leasing deals continue to proceed slowly in greater Providence, where business investment is seen as being held back by political and fiscal uncertainty at the state and local levels. Leasing activity remains robust in Portland, and that city's industrial leasing sector is described as particularly strong. Also in Portland, new permits for office construction continue to increase, with interest concentrated in downtown locations.

A regional lender saw an increase in commercial real estate loan volume in recent weeks. Contacts are either cautiously optimistic or, in Portland, unreservedly optimistic, that conditions in their respective commercial real estate markets will continue to improve slowly in the coming months, provided slow-to-modest economic growth continues at local and national levels. The outlook for office construction in greater Boston for the remainder of 2014 is very strong based on recent indicators but, looking farther ahead, contacts say the construction industry faces potential shortages of qualified workers. While such shortages are seen as a potential restraint on construction activity in 2015 and beyond, they are expected to be less severe in the First District than in some other U.S. regions.

Residential Real Estate

Sentiment across First District residential real estate markets can be summarized as generally positive, as contacts express optimism despite March data indicating year-over-year declines in single family home sales and in median sales price for single family homes in four of the six states. (Contacts in New Hampshire were unavailable for comment, while Maine saw an increase in sales and Rhode Island saw median prices rise.) For Rhode Island, Massachusetts, and Connecticut, sales also declined year-over-year in February. Respondents attribute the declines in single family homes sales to inventory shortages, weak employment security, and uncertainty surrounding changes to flood maps and flood insurance legislation. Lack of inventory remains the predominant constraint in Massachusetts, which once again saw available inventory decline relative to last year. While contacts indicate that inventories are beginning to expand in parts of Massachusetts as new sellers enter the market, they emphasize that inventory shortages cannot be resolved without new construction. Need for additional units, especially in the first time homebuyers market, is also noted in Connecticut, where multiple bids have started to occur and contacts state that developers are beginning to build. In Maine and Connecticut, short sales and foreclosures continue to be released to market, partially contributing to the decline in median sales prices.

The First District condominium market is doing somewhat better, with year-over-year closed sales increasing in all contacted states except Connecticut. Median sale prices for condos also increased relative to last year in all contacted states.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has continued to grow at a moderate pace since the last report. Prices of finished goods and services remained generally stable, and businesses report modest upward pressure on input prices. Manufacturers report that business activity has picked up considerably in recent weeks, while service sector firms indicate a mixed performance. Labor market conditions have shown signs of firming across a broad range of industries, with scattered reports of labor shortages. Both general merchandise retailers and auto dealers report that sales have been steady to stronger since the last report. Tourism activity has strengthened, no longer held back by harsh weather. Housing markets showed further signs of improvement, while commercial real estate markets were generally steady. Finally, banks report fairly widespread increases in demand for loans—especially mortgages; credit standards are little changed, while delinquency rates are steady to down modestly.

Consumer Spending

General merchandise retailers across most of the District report that sales rebounded strongly in April and early May, although weather has continued to be somewhat of a restraining factor in parts of upstate New York. Two major retail chains indicate that sales were mostly ahead of plan in April and the first half of May, with same-store sales running about 10 percent ahead of comparable 2013 levels, on average. One contact maintains that a surge in sales since mid-April corroborates that weather had been a major restraining factor. However, contacts at major malls in upstate New York report that sales were steady to down slightly in April and early May, as cold and rainy spring weather has continued to restrain shopper traffic. Retail contacts generally say that inventories are at satisfactory levels, that prices are mostly steady, and that the degree of discounting is little changed from a year ago.

Auto dealers in upstate New York report that new vehicle sales continued to be strong in April and early May, while used car sales have been mixed. Rochester-area dealers indicate further strengthening, with April new vehicle sales up 17 percent from comparable 2013 levels and May sales comparably strong; used car sales are also seen as fairly robust. Buffalo-area dealers report more moderate gains of 5 percent from a year ago in new vehicle sales but also characterize them as strong; used vehicle sales, however, are described as somewhat soft.

Tourism activity has strengthened since the last report, in part reflecting improved weather. Both revenues and attendance at Broadway theaters picked up markedly in April and remained solid into early May, running roughly 20 percent ahead of comparable 2013 levels—partly driven by an increase in the number of shows. The average ticket price has remained roughly on par with a year ago. New York City hotels report that revenues picked up modestly in April but appear to be strengthening noticeably in May, with occupancy rates running well above 90 percent and room rates up 3-4 percent from a year ago. This understates the number of stays, as the inventory of hotel rooms has also increased over the past year. Hotel occupancy rates also strengthened in parts of upstate New York in April.

Construction and Real Estate

The District's housing markets have picked up since the last report, buoyed by improving weather; however, low inventories are said to be a restraining factor in some areas. Contacts in the Buffalo-Niagara region indicate that housing demand remains brisk, though an exceptionally low inventory of available homes has held back sales volume; bidding wars are reported to be fairly common for prime properties. More broadly, the number of existing homes on the market is lower than a year ago across both New York State and northern New Jersey. One industry contact in New Jersey reports that, while there remains a big overhang of distressed properties, the inventory of available new and existing homes is very low; builders are seeing improved activity and are increasingly optimistic, but remain reluctant to build inventory.

New York City's sales market remains robust—particularly in the outer boroughs. While sales volume has not kept pace with elevated 2013 levels, one contact surmises that the weather may have pushed the peak spring season back a couple months. A major appraisal firm reports that prices of Manhattan co-ops and condos have risen moderately this year and are now nearly back to their peak levels of 2008; this contact also notes that nearly half of all residential (apartment) sales have been all-cash deals, in part from foreign buyers. Selling prices for Brooklyn and Queens apartments continue to rise briskly. Manhattan's rental market, which had been flat, has shown signs of a modest pickup in recent months, while strong demand continues to drive up rents in Brooklyn and Queens. The inventory of available condos and co-ops across the city remains lean, except at the high end of Manhattan's market, where there has been a good deal of new development.

Commercial real estate markets have been mixed but generally stable during the spring. Office availability rates remained elevated in the Westchester/Fairfield market and especially in northern New Jersey, but continued to edge lower in the New York City, Long Island and Westchester/Fairfield markets; in upstate New York, they rose modestly. Industrial availability rates have continued to edge down across most of the District.

Other Business Activity

The labor market has strengthened further since the last report. A growing proportion of both manufacturers and service-sector firms say they have added workers in recent weeks, and considerably more business contacts plan to expand than reduce employment in the months ahead. Separately, two major New York City employment agencies report that hiring activity has continued to pick up, driven in part by the financial sector. One contact says hiring is stronger than it has been in six years. There continues to be a shortage of IT workers, while companies are also having increased difficulty finding other workers whose skills closely match the job description. While salary increases remain subdued, one employment agency contact notes that many candidates are getting multiple offers and that this may be starting to put some upward pressure on salaries.

Manufacturing firms in the District report widespread increases in activity since the last report, whereas service-sector firms overall report a mixed performance. Price pressures in the manufacturing sector remain subdued; in the service sector they are more widespread but also subdued. In general, business contacts plan to hike their selling prices modestly in the year ahead.

Financial Developments

Bankers report fairly widespread increases in loan demand across all categories—particularly residential and commercial mortgages. However, they continue to report declining demand for refinancing. Respondents indicate that credit standards remain unchanged across all loan categories. Banks indicate a decrease in spreads of loan rates over costs of funds for both residential and commercial mortgages, but report no change in other categories. More than twice as many contacts indicate an increase versus a decrease in the average deposit rate. Finally, bankers report that delinquency rates on loan portfolios are steady to declining slightly.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District grew at a modest pace during this current Beige Book period. Most sectors resumed the pace of activity that was evident before the recent winter disruptions. Auto sales surged with “phenomenal” growth in April – rebounding yet further from the winter slump, while general retail sales resumed a modest pace of growth. Demand for general services maintained a moderate pace of growth over the Beige Book period, and staffing services continued to maintain a modest pace. After partially rebounding in the previous Beige Book period, the residential construction and real estate sectors posted slight declines in contracts for new homes and sales of existing homes. Noncommercial real estate fared better: Construction maintained slight growth with several large groundbreakings yet to come, and contacts noted a slight uptick in activity for office leasing. Manufacturers reported a modest increase in activity. Tourist destinations reported slight growth during this shoulder season between snow and sun. Lending volumes continued to grow slightly over this period, and credit quality continued to improve. Overall, contacts reported slight increases in wages, home prices, and general price levels, similar to the last Beige Book period.

Overall, contacts anticipated moderate growth over the next six months and continued to express confidence in the underlying economy. With regard to hiring and capital expenditure plans, firms are beginning to increase capital expenditures, especially to boost efficiency; some new hiring is occurring, but firms remain cautious.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported further modest increases in orders and shipments. The number of industries reporting gains has generally expanded since the last Beige Book, although some reports reflected seasonal trends, and some firms indicated that the growth reflected a run-up related to a backlog of orders resulting from the harsh winter weather. Firms associated with automotive sales reported continued strong growth. A few firms associated with homebuilding and other construction reported continued weakness, despite the return of warmer weather. Overall, both durable and nondurable goods industries have generally shown expansion. As demand and production have increased, nearly one-half of the firms reported a mismatch between their firm’s labor skill requirements and skills in the labor supply. About one-third of firms reported labor shortages, and one-third reported job vacancies open longer than three months. Skilled production machinists and tool, plant, and system operators were identified as most important to these firms.

Optimism among Third District manufacturers that business conditions will improve during the next six months has held steady since the last Beige Book and was evident across nearly all sectors. More than one-half of all firms anticipated increases in activity over the next six months; only about 15 percent reported expectations of lower activity. Nearly one-third of the firms reported that they anticipate higher levels of employment and capital expenditures in six months – slightly less than during the last Beige Book period.

Retail. Third District retailers have reported continued improvement since the prior Beige Book period, with sales growing at a modest pace over the period. Year-over-year sales finished a little stronger than last year for April, although a March–April comparison (which eliminates the effect of Easter shifting between months) shows sales as relatively flat. Retailers continued to offer heavy promotions to move inventory, generating higher unit volume but lower unit pricing. Malls offered discounts from 30 percent to 50 percent. Early impressions for May were also good. An outlets mall operator reported that bus traffic was up 11 percent over this year, which represents a return of some consumers who have not made the trip since the recession began. Contacts mentioned a backlog of signed leases and rising lease activity. Retail development managers continued to describe great optimism for future deals in the remainder of 2014 and next year. New deals will mostly impact 2015.

Auto sales surged further during this Beige Book period, rebounding further from the weak sales posted in the first two months of the year. Dealers reported “phenomenal” sales in April following a strong month in March. Auto dealers remain bullish for the remainder of 2014.

Finance. Third District financial firms have continued to report slight increases in total loan volume since the last Beige Book. Commercial and industrial loan volume grew moderately, and home equity lines grew modestly. Mortgages and consumer credit lending (other than credit cards) grew slightly, while commercial real estate lending was reportedly down slightly. The volume of credit card lending was up throughout most of the Beige Book period (partially a seasonal trend). Banking contacts in several markets indicated that real estate lending picked up after the long winter. In particular, they noted that in some markets long dormant residential projects were starting back up. Other contacts mentioned strong sales at a recreational vehicle dealer that may indicate stronger consumer confidence and that may bode well for ongoing discretionary consumer spending. However, many bankers in smaller markets continued to describe small restaurants and small businesses as struggling with permanent losses after the long winter. Nearly all contacts described the commercial and industrial loan market as very competitive. Most reported steady improvement in credit quality and little change in lending standards. Overall, most bankers remained guardedly optimistic for growth through the remainder of the year. Most see confidence building among consumers and businesses; however, most small businesses remain very cautious.

Real Estate and Construction. After weathering the cold winter slump followed by a little pick up in March, Third District homebuilders reported a renewed slowdown. The strong spring sales season – for which many Third District builders had hoped – did not materialize. Instead, builders reported that contracts for new homes were well below last year’s levels and even further below their 2014 plan. This is also true for their local competitors, large and small. One Pennsylvania builder indicated a general malaise, citing less customer traffic, more competition from existing homes sales, and a resurgence of concern among potential buyers that they would be unable to sell their existing homes. Residential real estate brokers reported some improvement in May; however, April sales were uniformly negative in most major markets on a year-over-year basis. Sales have been “doing quite well” in Center City Philadelphia, but less so in the suburbs. Contacts cited ongoing financing difficulties, as many market participants have lost equity in their existing houses or are under water. In addition, student loans have contributed to lower household formation rates. Throughout the Third District, brokers expect sales to improve, but they no longer expect to recapture all of the "lost" sales from the first four months of the year.

Nonresidential real estate contacts reported little change in the relatively low level of construction; however, some activity for surveying and inspections has fully returned to normal since the earlier winter disruptions. Some developers continue to build and lease industrial/warehouse space on a speculative basis, as demand remains strong in this market. Most other markets require signed contracts. One contact noted a small uptick in leasing activity for office space since the last Beige Book. Most contacts describe activity as slow and steady. They remain optimistic that construction activity will accelerate somewhat, as several large projects are breaking ground this year.

Services. Activity among Third District service-sector firms has maintained a moderate pace of growth since the last Beige Book. Service-sector firms reported mostly moderate growth rates, with roughly 60 percent reporting increased sales and about half reporting increased orders. One central Pennsylvania staffing firm reported that firms are making faster hiring decisions. More responding firms have added full-time and part-time staff employees than have trimmed staff levels. Overall, the vast majority of service-sector contacts are optimistic that the growth trend will continue over the next six months.

Tourism destinations maintained slight growth during the shoulder season between winter ski and summer shore activity. The prolonged winter weather was reported to have helped the ski resorts. Now it is reported to have also increased cabin fever and demand for summer getaways along the shore. Contacts from Delaware and New Jersey shore communities reported increases in early bookings for the 2014 season. Increased demand for hotel rooms in Delaware's coastal county has outpaced the increased supply since last year. New Jersey contacts reported that there is greater preparedness to welcome tourists this year than last following Hurricane Sandy. In addition, some boat owners are bringing their boats back to the shore following recession belt-tightening.

Prices and Wages. Overall, Third District contacts reported little change to the steady, slight pace of price level increases, similar to other recent Beige Books periods. About three-fourths of manufacturing firms reported no change in prices paid and prices received. However, a slightly higher percentage of manufacturers reported higher prices paid and higher prices received, while slightly fewer reported lower prices paid and lower prices received. About one-third of the manufacturing firms reported increasing wages to address their specific skills mismatches. Auto dealers reported little change in pricing, and general retailers continued to report heavy promotions. Many contacts continued to report tight, or narrowing, margins. Homebuilders have been forced to push back against higher material prices and have met with some success. Labor costs have been up a bit, but pressures have eased as their demand has fallen. Brokers reported slight, steady overall increases in home prices. Contacts among service-sector companies reported little change in labor costs.

FOURTH DISTRICT – CLEVELAND

Business activity in the Fourth District expanded at a modest pace during the past six weeks. New orders and production at District factories grew slowly. Construction activity began to pick up in the second quarter, after a slow start to the year. Auto dealers saw a strong rise in new-motor-vehicle sales during April, while retailers experienced rising sales on a year-over-year basis. In the energy sector, coal exports strengthened, and shale gas drilling edged slightly higher. Freight volume improved to more normal levels. Demand for business and consumer credit moved higher.

Employment has picked up in the manufacturing and construction sectors. Staffing-firms reported little change in the number of job openings and placements, with job vacancies found primarily in the manufacturing and oil and gas industries. Several of our contacts noted a shift toward hiring temporary workers. Wage pressures are contained. Input and finished goods prices were stable, apart from some increases in steel, construction materials, and agricultural products.

Manufacturing. Reports from District factories indicated a modest increase in new orders and production during the past six weeks; contacts attributed some of the improvement to seasonal factors. Finished goods inventories were in line with orders. Compared to a year ago, demand was generally consistent or somewhat higher. Strongest demand came from the aerospace, motor vehicle, oil and gas, and residential construction markets. While there is growing confidence in western European markets, the outlook for the Chinese economy remains a question. Our contacts are fairly optimistic about the U.S. outlook and they expect demand will rise relative to current levels in the coming months. Steel shipments grew slightly since our last report, and the pace of growth is expected to increase as the year progresses. Through April, year-to-date auto production at District assembly plants is almost 10 percent higher as compared to 2013.

Capital expenditures are in line with budgeted amounts for the fiscal year. A majority of our respondents reported that they intend to increase their capital budgets as the year progresses for software-based productivity enhancements or for capacity expansion—additional machinery and larger plant footprints. Raw material prices were largely unchanged, though a few manufacturers reported that steel prices have risen slightly. Little pass-through was noted. Hiring of production workers has picked up recently, but the net gain in payrolls is still small. Wage increases this year are in the range of 2 to 3 percent.

Real Estate and Construction. Sales of new single-family homes improved during the past six weeks, and the number of units sold was higher than during the February/March time frame. Most of our contacts noted that year-over-year sales were slightly higher. Existing single-family home purchases also started to improve in April. Reports indicated that the inventory of existing homes decreased, while the number of days on the market rose slightly. New-home contracts were mainly in the move-up price-point categories. First-time buyers continued to experience difficulty obtaining credit, especially for condominiums. Selling prices of new homes are trending slowly higher (5 to 10 percent from a year ago) due to rising labor, development, and material costs. Buyers are reportedly more accepting of the higher prices. Homebuilders believe that the housing market will grow at a slow but sustained pace in 2014.

Many nonresidential builders characterized current pipeline activity as strong, and they are fairly optimistic about converting proposed projects into contracts, though they expect that margins will remain tight. Builders experiencing declining revenue this year attributed it to 2013 being an exceptional year, and they said they were not expecting the same level of activity. Backlogs are satisfactory. Demand was strongest for multifamily housing, retail, distribution centers, and healthcare facilities—albeit small footprints. Confidence in the economy is still somewhat tepid, which is holding back some high-value projects.

Commercial developers said that banks are becoming more interested in financing projects, although the amount of paperwork required seems excessively high. One developer reported that banks are now quoting 10-year loans, and insurance companies have resumed CRE lending. In contrast, banks are reluctant to finance spec home construction and lot development. Comments on construction-material pricing varied widely, with cited increases ranging from 2 to 10 percent. General contractors are in the process of hiring—skilled trades, professionals, and back office. Skilled trade workers are very difficult to find and are driving up wages. Several builders reported that they are increasing benefits to stay competitive and to retain their labor force.

Consumer Spending. After a disappointing first quarter, most retailers reported that sales began to increase in April, in response to warmer weather and the Easter holidays. Same-store revenues were higher than a year ago. Core merchandise, such as consumables and basic apparel, were in highest demand. Furniture dealers cited weak consumer confidence for lackluster sales of indoor and outdoor furniture. Retailers are hopeful that third-quarter revenues will be higher, mainly in the low single-digits, than those seen a year earlier. We heard reports about rising food prices, especially for meat and dairy products, which are being attributed to poor weather conditions. Retailers remain reluctant to pass through these increases to consumers. Otherwise, vendor and shelf prices held steady. Hiring is being restricted to staffing new stores and a few technology-related jobs.

The number of new motor vehicles sold in April rose sharply on a month-over-month basis. Year-to-date sales were moderately higher compared to 2013. Smaller, fuel-efficient cars are gaining in popularity, as consumers shift away from SUVs and crossover vehicles. A weak first quarter kept new-vehicle inventories elevated and contributed to a boost in dealer incentives. Year-to-date sales of used cars were stronger through April than for the same time period in

2013. The outlook by dealers for the summer season is positive, with year-over-year increases in unit volume of 2 to 5 percent expected. Leasing remains popular as an alternative to buying a vehicle. Dealers are on the lookout for service technicians, but are having difficulty finding qualified workers.

Banking. The rise in demand for business credit that began in April is strengthening. Requests were strongest for equipment financing, commercial real estate development, and mergers and acquisitions. There was also a pickup in credit line utilization. Consumer credit demand stayed on a slow upward trend. Applications for auto loans were strong, and households made greater use of home equity lines of credit and credit cards. A majority of bankers we spoke with said that residential mortgage activity slowed since the fourth quarter of 2013. Recent mortgage applications were mainly for purchase transactions. Many of our contacts, especially community bankers, noted that competitive loan pricing, an inability to raise fee income, and reduced income from mortgage refinancing is impairing their ability to offset the cost of regulatory compliance and to invest in on-line and mobile banking technology. No changes were made to loan-application standards during the past six weeks. Delinquency rates trended slightly lower. Core deposits (consumer and business) showed steady growth at most banks. On balance, banking payrolls were steady: hiring was mainly for replacement or to work in regulatory compliance. We heard a couple of reports about staff cuts in mortgage business lines.

Energy. Year-to-date coal production across the District is fairly consistent with year-ago levels. We heard a report about the reopening of a shuttered mine in West Virginia due to strong demand from European and Chinese customers. Although export markets are strategically important to the coal industry, a strengthening U.S. dollar is hindering domestic production expansion. Going forward, output is projected to be stable to somewhat higher. Spot prices for steam and metallurgical coal were little changed. Unconventional oil and gas drilling increased slightly during the past six weeks. Reports indicated that wet gas production is restricted due to limited pipeline and processing capacity. Wellhead prices for natural gas have declined, while oil prices were stable. Equipment, material, and labor costs remain stable.

Freight Transportation. Freight executives are generally satisfied with current business conditions, following a very difficult winter. One contact observed that overall trends are starting to normalize. Freight carriers are seeing strong or strengthening demand for shipments of motor vehicles, chemical products, and construction-related materials. Their outlook is positive. Capacity is expected to remain tight, due in part to the effects of the hours-of-service rules that were implemented last July. Diesel fuel prices have leveled off but remain elevated. Year-to-date capital spending was in line with budgeted amounts. Monies are allocated more for equipment replacement, especially by small-to-medium fleets, than for capacity expansion. Hiring is mainly for replacement.

FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic activity expanded moderately in recent weeks, and contacts reported an optimistic outlook. Conditions varied among manufacturers, however. Shipments increased mildly, while new orders grew at a slower rate and backlogs leveled off. Retail sales grew moderately. Non-retail service sector revenues increased at a measured pace since our last report, and several executives were upbeat about future prospects. Tourist destinations experienced normal strong bookings while transitioning to warm-season activities; room rates were generally unchanged. In residential real estate markets, there were reports of increased buyer traffic and improving sales of low to mid-priced homes. Commercial real estate activity grew moderately since our last report. Most contacts reported steady multifamily leasing, although they expressed some growing concern about over-supply. In agriculture, fertilizer prices remained stable, while chemical and farm equipment prices rose slightly. Coal production fell below year-ago levels, while natural gas production increased. Labor market conditions improved slightly. According to our most recent surveys, employment in the service sector ticked higher and wages increased at a slightly faster pace. Manufacturing employment and the average work week also picked up, and wages advanced more quickly. Prices of raw materials and finished goods rose somewhat more quickly, and prices in the service sector, including retail, also advanced at a faster pace.

Manufacturing. Manufacturing conditions varied by industry. Shipments rose mildly, while new orders grew at a slower rate and backlogs leveled off. In addition, finished goods and raw materials inventories increased slightly. A manufacturer of airflow measurement devices attributed his stronger orders to new product offerings and a recent rise in construction-related demand. A furniture manufacturer stated that orders and backlogs had increased. A few food manufacturers noted seasonal improvements in sales and production. However, declining sales were reported by producers of plastics, rubber, sealing devices, machinery, and textiles. A process engineering parts producer also indicated that demand decreased in the past few weeks. Further, a textile manufacturer said that sales declined in all categories in the last month. Manufacturers were generally optimistic about growth over the next six months, however. Prices of raw materials and finished goods rose at a faster pace, according to our survey.

Ports. Port traffic grew briskly since our last report. Diversions from the West Coast are expected to increase as shippers look to avoid interruptions during union contract negotiations there. Container traffic and auto parts traffic were robust. The Port of Virginia, which handles the largest share of grains on the East Coast, reported continued strength in containerized grains moving through the port. Imports and exports of autos remained strong at the Port of Baltimore, and container shipments bounced back after a weaker first quarter. Modest growth in imports of construction equipment is expected there. In contrast, agricultural equipment exports have slowed and are expected to flatten or decline in the months ahead.

Retail. Retail sales grew moderately since our last report. An executive at a chain of hardware stores in central Virginia reported that sales and customer traffic had risen, and he was able to pass price increases through to customers. The manager at a West Virginia sporting goods store said sales increased and customer traffic had picked up. In the Hampton Roads area of Virginia, a big box discounter indicated that sales were stable, although foot traffic had declined. A central Virginia retail representative noted that e-commerce has led to store downsizing, and product distribution is becoming key. Smaller stores have also become more focused on brand perception and customer service. Car dealerships near the D.C. beltway had slower sales, leaving excess inventory on the lot. Elsewhere in the District, auto sales remained strong. A transportation contact expects equipment purchases by trucking firms to rise soon as aging fleets are replaced and e-commerce expands. Retail prices moved up slightly faster in recent weeks.

Services. Service sector revenues increased at a modest pace since our last report, with several executives reporting a positive outlook. An executive at an accounting services firm stated that more bid work was becoming available. According to a financial services professional, account balances were up and “things are in pretty good shape.” An executive at a national freight trucking firm said that business returned to normal levels as the weather improved. Hospital executives reported a recent decline in elective procedures; at a North Carolina facility, admissions fell in part because of Medicare changes. Prices in the service sector rose somewhat more quickly.

Tourism in the District was at robust seasonal levels, while room rates were generally unchanged. Mountain resort managers reported solid bookings as they converted to spring and summer activities. An executive on the Outer Banks of North Carolina said Memorial Day weekend was heavily booked. A hotel manager in Baltimore remarked that tourist and convention business was strong, and a West Virginia resort executive expects “good growth” this summer. A contact in Washington, D.C. said that the number of tourists had increased in recent weeks, and the re-opening of the Washington Monument in mid May was well-attended. An hotelier at a tourist destination in Virginia stated that competition had increased and he was advertising more strategically to keep his visitor counts up. Managers at West Virginia gaming facilities reportedly feared losing business because gambling has expanded in neighboring states.

Finance. Overall, consumer lending declined at a slower pace since our last report, while commercial lending grew modestly. Although residential mortgage bankers reported slightly weaker lending, a West Virginia banker said that lower rates may boost lending moving forward. According to bankers in Virginia and West Virginia, mortgage refinancing was significantly lower because the refinancing cycle is largely complete. These bankers also noted that loan volumes for home equity and lines of credit were also down slightly in both states. Interest rates were widely reported to be flat or lower. Credit quality was mostly stable with a few reports of improvement in West Virginia. Commercial lending grew across most of the District. A lender in Virginia noted a significant pickup in residential real estate, and modest growth in industrial and business expansion lending. In contrast, bankers in Maryland and West Virginia reported softening demand for commercial loans, and a lender in North Carolina expressed concern that there could be a bubble in multi-family construction in that market.

Real Estate. There was slight improvement in the District's housing market since our last report, with increased buyer traffic and mild strengthening in sales for low to mid-priced homes. Home sales rose slightly in the Charlotte, Fairfax, Greensboro, Fredericksburg, and Richmond metro areas. In contrast, a broker in Myrtle Beach and another in Washington, D.C. reported flat sales. Most contacts said that home prices increased mildly. Housing inventory increased, but remained at low levels throughout the District. The absorption rate improved in the past few weeks. While buyers were generally described as cautious and conservative, brokers reported that multiple offers and sales above asking price had become more common. A Charleston, South Carolina Realtor stated that the market for mid-range homes was tight and the average "days on the market" was in single digits. New single family construction increased in South Carolina, North Carolina, and Virginia. A Washington, D.C. Realtor said that new home prices were rising faster than prices for existing homes.

Commercial real estate activity grew moderately over the past several weeks. Rental rates were mostly stable, but some modest increases were also noted. Vacancy rates ranged from stable to slightly lower, with some pickup in absorption. A Charlotte, North Carolina Realtor said that office vacancy rates were low, while market fundamentals continued to recover and search activity increased. A commercial Realtor in Washington, D.C. reported that retail tenant allowances increased in the form of build-out dollars. The new development pipeline grew in Richmond, Virginia, with announcements of grocery-anchored projects, and mixed use construction plans moved forward in Washington, D.C. Multifamily housing construction remained strong throughout the District, and most contacts reported steady multifamily leasing activity, although there was some growing concern of over-supply.

Agriculture and Natural Resources. Agriculture contacts reported that fertilizer prices remained stable, chemical prices rose slightly, and farm equipment prices edged up. A South Carolina farmer said that delayed planting increased field days but did not affect his crop plans. Wholesale agribusiness executives reported that sales were at normal seasonal volumes.

Energy contacts stated that coal production fell below year-ago levels, and they expected a further decline in production over the next six months. Some plants closed, and coal prices rose slightly. Output of steam and metallurgical coal for export also declined year-over-year. Natural gas production rose steadily, with stable prices.

Labor Markets. Over the last several weeks, labor market conditions improved slightly. Demand increased for workers in manufacturing, distribution and warehousing, construction, and information technology. Employers continued to report difficulty filling highly skilled and upper level management positions. A Maryland staffing agent stated that those challenges were putting upward pressure on wages, while outside of those positions, wages were stable. A trucking firm reported recent wage increases for non-drivers and expected drivers' wages to also increase in the near future. In the energy sector, the number of coal workers declined, while the number of natural gas employees increased modestly. According to our recent surveys, employment in the overall service sector edged up, while wages increased at a slightly faster pace. In the retail subsector, growth in employment and wages strengthened. Manufacturing employment and the average work week also picked up, and wages advanced more quickly.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts described economic conditions as improving modestly in April and May. The overall outlook is positive with most contacts expecting either the same or a slightly higher level of growth for the remainder of the year.

On balance, reports on retail activity were mixed; however, auto dealers reported positive sales growth for the period. The tourism sector remained a bright spot with an increase in the number of domestic and international visitors to the District. According to residential real estate contacts, new and existing home sales were up and home prices continued to appreciate compared to a year ago. Homebuilders reported mixed levels of new home inventories and brokers cited a decline in existing home inventories compared to a year earlier. Commercial real estate contacts noted continued improvement in conditions as absorption rates and construction increased from last year. Purchasing managers in the manufacturing sector cited continued growth in new orders and production. According to bankers, loan demand for most types of loans was up across most parts of the region. District firms added to payrolls, albeit at a modest pace. Labor and material cost pressures remained stable and businesses continued to operate under tight margins.

Consumer Spending and Tourism. District retail reports were mixed in April and May. Merchants with multiple sites stated that sales were better in locations with more affluent customers. Retailers reporting lackluster growth attributed it to factors including people diverting spending to obtain mandatory health insurance and a reduction in food stamp benefits. Companies remained cautious in how they managed inventory levels. Auto sales grew at a brisk pace and contacts expect growth in the industry to remain consistent with current levels in the near term.

Contacts from the District's tourism and hospitality sector expressed an overall exuberance regarding activity. The number of visitors, especially international travelers from Latin America and Europe, to New Orleans, Atlanta, and most parts of Florida, increased. The near term outlook among contacts remains positive with most expecting an increase in travel compared with a year earlier.

Real Estate and Construction. More District brokers reported growth this period than the previous report. Roughly two-thirds of broker reports indicated that home sales had increased from the year earlier level. Most brokers indicated that inventory levels continued to decline on a year-over-year basis. The majority of contacts continued to report that home prices remained ahead of the year earlier level. The sales outlook among brokers was notably stronger relative to our last report.

Reports on current conditions from District builders were also more positive than the previous report. Most contacts reported that recent activity either met or exceeded their plan for the period. The majority of builders reported that construction activity and new home sales were ahead of the year earlier level. Reports on the level of unsold inventory were somewhat mixed. The majority of contacts continued to report modest home price appreciation. The outlook among builders for new home sales and construction activity was somewhat less optimistic than the previous report.

Commercial builders and brokers indicated that demand for commercial real estate continued to improve. Absorption picked up, though contacts continued to remind us that the rate of improvement varies by metropolitan area, submarket, and property type. Construction activity continued to increase at a modest pace from last year; most contacts reported that their current backlog is ahead of year earlier levels. Contacts indicated that apartment construction remains fairly strong and the level of construction activity across other property types has remained steady. The outlook among District commercial real estate contacts remained positive with continued improvement expected over the course of the year.

Manufacturing and Transportation. District contacts reported that manufacturing activity continued to expand. Growth in new orders, production, and employment suggested substantial strengthening in the District's manufacturing sector. Contacts reported increases in commodity prices and a drawdown in finished inventory levels. The outlook among purchasing managers for higher production over the next three to six months remains similar to the previous report.

Transportation contacts continued to cite expanding activity in April and May. District ports reported significant increases in exports of energy-related products; record unit volumes of cars, trucks, and tractors; and double-digit growth in containerized cargo. Railroads saw considerable increases in the movement of petroleum products and heavy equipment, as well as continued expansion in intermodal traffic. Trucking companies reported a slowing in the growth of tonnage since the last report but overall freight volumes remained robust. The majority of transportation contacts expect growth to be sustained for the rest of the year.

Banking and Finance. On balance, loan demand across the District increased as evidenced by a combination of new loan growth and increased lines of credit. Community banks also noted loan growth; however, new loans were being poached from larger banks. The use of home-equity lines increased as home values improved. Demand for auto and small business loans grew. Commercial real estate lending increased as business owners/owner-occupiers showed signs of expanding after many years of being on the sidelines. Some bankers admitted that they were getting "a little more aggressive" due to competition; however, they did note that they were not changing their loan structure or underwriting.

Employment and Prices. District payroll growth improved modestly since the last report. Staffing agencies noted a small increase in transitioning workers from temporary to permanent positions. Firms continued to show a preference towards using capital investment to enhance efficiency over hiring.

Most contacts reported relatively stable labor and material cost pressures. Notable exceptions included reports of greater wage pressure for some high-skilled positions and greater cost increases for food, transportation, and some construction materials. Unit costs are expected to increase 1.9 percent over the next 12 months, according to the Atlanta Fed's survey on business inflation expectations. Overall, profit margins were tight across most industries. However, a growing number of contacts communicated an expectation that the need to widen margins could have an upward influence on prices over the coming year.

Natural Resources and Agriculture. Energy activity in the District continued to expand as new discoveries, production, and oil field development increased across the Gulf Coast. Crude oil production was especially solid, which led to record high inventories in the region. Natural gas production, particularly wet natural gas, also increased. Energy firms expect continued strength in the sector during the summer months.

Parts of the District saw excessive rain, with flooding reported in lower Alabama and the Florida panhandle. There were some reports of crop damage and delayed planting attributed to excessive moisture.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District was moderate in April and May. Although contacts had been expecting a stronger pick-up, they generally maintained their optimistic outlook for 2014. Consumer and business spending both increased. Gains in manufacturing production remained moderate and growth in construction and real estate activity continued to be modest. Credit conditions improved slightly. Cost pressures increased, but were modest. Corn, wheat, and hog prices moved lower, while soybean, milk, and cattle prices increased.

Consumer spending. Growth in consumer spending increased slightly in April and May, though the overall pace of growth remained modest. Contacts suggested that higher utility bills and low consumer confidence had a negative effect on retail sales. Nonetheless, they were cautiously optimistic, citing favorable responses by consumers to recent promotional activity. Several contacts also reported higher than normal inventories in anticipation of stronger summer sales. Sales of building materials, garden supplies, and clothing improved with the weather, while sales of electronics and some other big-ticket items failed to meet expectations. Light vehicle sales decreased slightly, while dealers' service and parts departments remained active.

Business spending. Business spending continued to grow at a moderate pace in April and May, led by higher capital expenditures on equipment and software. Forward-looking capital spending plans also picked up. Although contacts reported that expenditures were primarily for replacement of existing capital, a number indicated that they were expanding capacity and IT infrastructure as well, particularly in the construction and real estate industries. In addition, contacts in the auto and energy industries reported increased capital spending to meet environmental regulations. Inventories remained at comfortable levels for most manufacturers, and there was some desired stockbuilding by retailers. Hiring plans changed little from the previous period. However, a staffing firm reported increased demand for temporary manufacturing workers, and several contacts said they had added part-time workers. Demand remained strong for skilled workers, with firms again reporting willingness to spend on training.

Construction and real estate. Growth in construction and real estate activity picked up, but remained modest in April and May. Contacts attributed the increase in activity to more favorable weather conditions, and expected moderate growth for the remainder of the year. Demand for both single- and multi-family residential construction improved. Existing home sales rose slowly, but real estate contacts expected activity to pick up as inventories return to levels that are more normal. Home prices and residential rents grew moderately. Demand for nonresidential construction expanded at a slow pace. Public construction activity was modest, but one contact noted some increase in infrastructure spending on bridges and schools. Office building remained weak. Contacts continued to note strength in industrial building and some areas of retail construction, particularly grocery stores. Demand for commercial real estate improved, as leasing of industrial buildings and office space increased.

Manufacturing. Manufacturing production continued to grow at a moderate pace in April and May. The auto, aerospace, and energy industries remained a source of strength for the District. Capacity utilization in the auto and steel industries increased as production levels rose. In addition, auto suppliers reported plans to add capacity as vehicle production adjusts to more stringent fuel efficiency requirements. Demand for steel fully recovered from the impact of earlier winter weather-related production disruptions, though an industry contact noted that the late thawing of parts of the Great Lakes hindered transportation of raw materials and that service center inventories remained somewhat low as a result. Furthermore, weak demand abroad combined with higher prices in the US spurred a spike in steel imports. Specialty metals manufacturers continued to share in the moderate growth, with several reporting an increase in new orders and order backlogs. Demand for heavy machinery grew at a slow but steady pace; output was buoyed by construction machinery, but weighed down by global weakness in mining. A slow start to the growing season raised concerns that pressure on farm incomes would weigh on demand for agriculture machinery. Manufacturers of construction materials reported an increase in demand as the weather improved, though not as much as some had hoped.

Banking/finance. Credit conditions improved slightly from the prior reporting period. Equity market volatility decreased, as did corporate financing costs for a number of District firms. Business lending increased, driven by demand for commercial and industrial loans from small businesses. Banking contacts again noted competitive pressure on structure and pricing for traditional and leveraged business lending, particularly from nonbank financial institutions. Investor purchases of commercial property rose, though some contacts expressed concern that the increase was not supported by underlying demand. Growth in consumer loan demand remained modest, with the utilization of credit card lines and the demand for auto loans both increasing. Some banking contacts also noted a slight pick-up in mortgage refinancing activity with the recent decline in interest rates, even as new mortgage originations decreased. Mortgage brokers reported that it remains difficult for many potential borrowers to obtain residential mortgages.

Prices/costs. Cost pressures increased, but overall were modest. Commodity prices rose, and contacts noted higher prices for building materials and industrial metals. Energy and transportation costs remained elevated. Contacts reported lingering shipment delays of goods and raw materials from the harsh winter weather earlier in the year. A steel industry contact noted that the resulting supply chain disruptions contributed to the increase in steel prices. Retailers reported higher wholesale prices, particularly for food items such as meat and dairy. However, pass-through to downstream prices remained limited. Wage pressures rose slightly. Non-wage labor costs also increased, as contacts continued to express concern about rising healthcare premiums.

Agriculture. Corn and soybean planting progressed quickly after precipitation and cool temperatures slowed fieldwork earlier in the spring, though planting in Michigan and Wisconsin was still lagging. Cold soil temperatures are still a concern; some contacts reported that the corn crop was in good shape but that the emergence of soybeans was behind average. Moisture levels were at least adequate for planting throughout the District, although parts of Iowa remained in drought. Corn and wheat prices were lower, while soybean prices drifted higher. Livestock prices remained well above the levels of a year ago, although hog prices moved lower. High milk prices encouraged the expansion of dairies, and high cattle prices appear to be leading to some new entrants into the livestock business. Farm machinery was readily available after several years of waiting lists for purchases.

Eighth District - St. Louis

Summary

The economy of the Eighth District has grown modestly since our previous report. Reports from retailers and auto dealers in April and early May have been generally positive. Recent reports of planned activity in manufacturing and services have also been positive on net. Residential real estate market conditions have deteriorated, and commercial real estate market conditions have improved. Lending activity at a sample of District banks has improved modestly. Wage increases have been modest, and prices and employment levels have increased slightly.

Consumer Spending

Reports from retail contacts about sales in April and early May were generally positive. Retailers generally noted that their current inventories were at desired levels. Restaurant contacts noted strong activity in that sector. A few non-restaurant retailers noted a decline in April sales this year relative to last year and stated that sales in April and the first half of May fell short of expectations. Contacts generally noted a positive economic outlook for the remainder of the spring season and the rest of 2014.

Two-thirds of auto dealers noted that, compared with the same time last year, sales increased in April and early May. One in four contacts reported decreased sales, and the remainder reported no change. Almost two-thirds of auto dealers reported no change in the mix of used-car versus new-car sales; one in four contacts reported more used-car sales, and the remainder reported more new-car sales. Similarly, almost two-thirds of contacts reported no change in the mix of high-end versus low-end vehicles; one in four contacts reported more low-end sales, and the remainder reported more high-end sales. Roughly three-fourths of contacts reported that their inventories were at desired levels, while the remainder reported that inventories were too high. The outlook for sales in the near future was mostly positive.

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 in auto parts, furniture, automobiles, pharmaceutical preparations, alcoholic beverages, aluminum products, freezers, machinery, apparel, rubber products, and dry polymer manufacturing plan to hire new employees and expand operations in the District. In contrast, firms that manufacture textiles, printing products, shoes, and television sets reported plans to lay off workers in the District.

Reports of planned activity in the District's service sector have been positive since the previous report. Firms in telecommunication, distribution, information technology, business consulting, and courier and express delivery services reported new hiring and expansion plans in the District. In contrast, firms in data processing, disability benefit application management, mortgage, transportation, and translation and interpreting services reported plans to reduce employment.

Real Estate and Construction

Sales of new and existing homes have declined across most of the largest metro areas in the District. Compared with the same period last year, April 2014 year-to-date total home sales were down 12 percent in Little Rock, 5 percent in Louisville, 5 percent in Memphis, and 14 percent in St. Louis. Residential construction also has declined across the District. Compared with the same period last year, March 2014 year-to-date single-family housing permits decreased 26 percent in Little Rock, 17 percent in Louisville, 4 percent in Memphis, and 4 percent in St. Louis.

Commercial and industrial real estate market conditions have remained steady or have improved since the previous report. A contact in northwest Kentucky noted a steady demand for high-quality industrial and retail space. Contacts in Memphis noted reduced vacancies in the retail real estate market and a steady demand for industrial space. A contact in Little Rock reported flat commercial market conditions. A contact in St. Louis reported improvement in industrial space leasing throughout the area. Commercial and industrial construction improved throughout most of the District. A contact in Louisville reported an increase in commercial projects in the downtown area, a contact in Memphis reported a new industrial construction project on the outskirts of the city, and a contact in Little Rock noted a new commercial construction project in North Little Rock.

Banking and Finance

A survey of District banks showed modest improvement in overall lending activity since the previous report. During this period, credit standards for commercial and industrial loans eased slightly and creditworthiness of applicants improved, while demand increased and delinquencies decreased moderately. Credit standards for prime residential mortgage loans tightened slightly and creditworthiness of applicants improved moderately, while demand was moderately weaker overall, with responses ranging from moderately stronger to substantially weaker. Also, delinquencies decreased moderately. Many respondents noted regulatory challenges in the mortgage market. Credit standards for credit cards eased slightly and creditworthiness of applicants remained unchanged, while demand was moderately stronger and delinquencies decreased slightly. Credit standards for auto loans and other consumer loans showed no change, and creditworthiness of applicants improved slightly for auto loans and remained unchanged for other consumer loans; demand increased slightly and delinquencies decreased.

Agriculture and Natural Resources

As of mid-May, on average, corn planting across the District was about 81 percent complete and about 93 percent of the winter wheat crop was rated in fair or better condition. Coal production for April 2014 was 4 percent higher than in April 2013.

Prices, Wages, and Employment

A survey of Eighth District businesses indicated that, in the period since the previous report, wages grew at a modest pace while prices and employment levels increased slightly compared with the same period last year. Fifty-eight percent of contacts noted that wages have stayed the same, while 42 percent noted that wages have increased. Sixty-four percent of contacts indicated that prices charged to consumers have stayed the same, while 28 percent indicated that prices have increased and the rest noted that prices have declined. Finally, 63 percent of contacts reported that employment levels have remained the same, while 22 percent reported an increase and 15 percent reported a decline.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a moderate pace since the last report. Increased activity was noted in consumer spending, tourism, commercial real estate, professional services, manufacturing, and energy and mining. Decreased activity was noted in farming, construction and residential real estate. Labor markets continued to show signs of tightening. Wage increases were slightly higher over the past few months, but remained moderate overall. Prices remained relatively level overall.

Consumer Spending and Tourism

Consumer spending increased modestly. A Minneapolis area mall manager noted that sales were flat during the extended winter season, but with spring weather arriving, sales had picked up. Traffic and sales were slow during late winter months at a North Dakota mall, but sales started increasing in April and May. According to preliminary results of the Minneapolis Fed's annual survey of professional services companies (conducted in May), consumer spending is expected to increase during the next 12 months. Vehicle sales were solid in North Dakota, but were somewhat softer in recent weeks as farmers were concerned about getting crops planted.

Tourism was up from a year ago. In western South Dakota tourism activity was above year-ago levels during April and May, while advance bookings for lodging and camping were solid for the early part of summer, according to an official.

Construction and Real Estate

The extended winter negatively affected commercial construction activity. The value of April commercial and hotel permits in Billings, Mont., fell from last year. In Sioux Falls, S.D., April permits were down 69 percent from a year ago. Residential construction decreased from last year. The value of April residential permits in Sioux Falls fell by 10 percent from a year earlier. In the Minneapolis-St. Paul area, April residential permitted units decreased compared with April 2013. The value of April single-family residential building permits in Billings was up from last year, but multifamily building was down.

Activity in commercial real estate markets increased since the last report. A real estate analytics firm noted that Minneapolis-St. Paul industrial vacancy rates dropped in the first quarter and are forecast to fall throughout 2014. Residential real estate market activity decreased since the last report. In the Sioux Falls area, April home sales were down 12 percent, inventory increased 5 percent and the median sales price decreased 1 percent relative to a year earlier. April home sales were down 12 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale increased 2 percent and the median sales price rose 8 percent. In La Crosse, Wis., April home sales were down 11 percent from the same period a year ago and the median sales price rose 1 percent. However, April home sales increased in the Bismarck, N.D., area. Multifamily vacancy rates in Minneapolis-St. Paul were level in the first quarter, but are forecast to rise for the remainder of 2014.

Services

Activity at professional business services firms increased at a moderate pace since the last report. Preliminary results of the professional services survey showed that over the past four quarters, sales revenue, productivity and profits grew, and they are expected to increase over the next year. A contact from a railroad noted significant growth in freight volumes thus far in 2014 compared with the same period in 2013.

Manufacturing

The manufacturing sector saw continued moderate growth. An April survey of purchasing managers by Creighton University (Omaha, Neb.) suggested that manufacturing activity in Minnesota and the Dakotas increased. In Michigan's Upper Peninsula, a snowplow blade producer and an electrical equipment manufacturer were expanding capacity. A Minnesota plastic parts producer noted that demand from the auto sector has increased. However, in Minnesota a disk-drive parts facility and a military firearms plant will both close later this year.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Mid-May oil and gas exploration increased in Montana and decreased slightly in North Dakota from a month earlier. Output is expected to surge this spring, as a large number of wells drilled over the winter could not begin producing due to extreme cold. A pipeline operator in Minnesota announced a $125 million plan to double capacity on an existing line that feeds crude from Canada and North Dakota to Minnesota refineries. A plant that will process natural gas from the Bakken oilfield opened in North Dakota. A large wind farm development will be built this summer in South Dakota. A mining firm finalized plans for a large copper mine in northern Minnesota. While district iron ore mines were operating at near capacity, industry contacts were concerned that demand from the steel industry may slow.

Agriculture

District farmers saw their financial condition continue to weaken, while livestock and dairy producers were in better shape. More than half of respondents to the Minneapolis Fed's first quarter (April) Survey of Agricultural Credit Conditions said farm incomes and capital spending fell in the first three months of 2014, and about the same percentage expect it to decrease in the second quarter. A late spring and heavy early-season rains significantly delayed corn and soybean plantings throughout the district. Hog producers continued to lose large numbers of animals to a virus, pushing up prices for pork, as well as poultry. Cattle producers enjoyed record beef prices, as overseas demand grew and efforts to rebuild the U.S. herd kept cattle from going to slaughter. Grain elevators reported delays in shipping grain due to rail capacity constraints.

Employment, Wages and Prices

Labor markets continued to show signs of tightening. A number of manufacturers noted difficulty hiring qualified employees to fill positions. A new outlet mall in Minnesota is looking to hire 1,600 workers. A window manufacturer announced plans to add 100 jobs at a Minnesota factory, while a window and door manufacturing facility in North Dakota plans to add up to 125 jobs. Minnesota initial claims for unemployment insurance benefits in April were down 15 percent compared with a year earlier. In contrast, a fertilizer company announced plans to lay off 50 employees at its headquarters.

Wage increases were slightly higher over the past few months, but remained moderate overall. For example, wages for workers at some nonunion Minnesota construction firms increased for carpentry and trades positions; however, wage rates remained lower than prerecession levels. A Minnesota manufacturer noted that wages were up about 5 percent, a larger increase than the previous two years.

Prices remained relatively level overall. Late-May Minnesota gasoline prices were about the same as in mid-April. While natural gas prices were relatively level from the last report, they remained higher than a year ago. According to the survey of professional services firms, input costs and selling prices are expected to increase about the same during the next 12 months as over the previous 12 months. Meanwhile, copper and nickel prices increased somewhat since the last report.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded modestly in late April and early May with solid expectations for growth during the coming months. Consumer spending rose slightly at retailers and auto dealers, while restaurant and tourism contacts expected a summer rebound in activity. District manufacturers reported a further increase in production, transportation firms noted increased sales, and business activity at other services companies continued to grow steadily. Residential real estate activity remained steady alongside an increase in home prices and housing starts. Commercial real estate activity improved further with additional declines in vacancy rates. Bankers reported increased loan demand, stable loan quality and a slight decline in deposits. Farm income expectations fell for crop producers, but livestock operators reported improved profits. District energy activity remained stable and was expected to expand in the coming months with an increase in hiring and capital investments. Prices rose modestly, and wage pressures increased for some skilled trade positions in the manufacturing, construction, transportation, and energy sectors.

Consumer Spending. Consumer spending increased at a slower pace in late April and early May, but contacts were more optimistic about future sales growth. Retail sales increased modestly from the previous survey and were up slightly from a year ago. Several retailers noted stronger sales of home improvement and building materials. Expectations for future sales climbed higher and store inventories continued to increase moderately. Auto sales grew at a slightly slower pace than in March but remained above year-ago levels. Sales were expected to improve in future months, and contacts said small, mid-sized family vehicles sold particularly well. Auto inventories rose but at a slower rate than earlier this year. Restaurant sales slowed somewhat, but activity was considerably higher than a year ago and expectations for future sales were strong. District tourist activity slowed somewhat in late April and May, and was lower than a year ago. However, most tourism contacts expected modest increases in activity heading forward.

Manufacturing and Other Business Activity. District manufacturing activity expanded at a solid pace in late April and early May. Production was strongest at durable goods-producing plants, particularly among machinery and construction materials manufacturers. New orders rose marginally and employment also increased. Expectations for future factory activity moderated slightly from previous months, but were generally positive. Manufacturers' capital spending plans were healthy and remained higher than last year. Wholesale trade and transportation firms noted solid sales growth from the previous survey, and expectations for future activity moved slightly higher, particularly among transportation contacts. Activity at professional and high-tech firms continued to grow, with sales expected to rise further in coming months. However, one high-tech firm noted a sharp revenue decline due to reduced government defense spending.

Real Estate and Construction. Real estate and construction activity increased modestly in late April and early May, with stronger seasonal activity anticipated in the coming months. Construction supply and builder contacts reported stronger activity compared with both the previous survey period and last year. Builders reported moderate growth in the number of starts and potential buyer traffic, and housing starts were expected to rise over the next few months. Residential realtors reported steady home sales since the last survey period but expected a modest increase in sales due in part to seasonal factors. Residential home inventories continued to drop and home prices increased further. The market for low- and medium-priced homes remained more robust than the market for higher-priced homes. Mortgage activity was moderately lower than a year ago due to a decline in refinancing activity, but increased since the last survey and was expected to increase in coming months. Commercial real estate contacts continued to report a decline in vacancy rates, an increase in absorption, higher sales, and strengthening construction activity. Commercial real estate prices, sales, and construction were expected to increase moderately in the coming months.

Banking. Bankers reported an increase in overall loan demand, stable loan quality and a slight decrease in deposit levels in late April and early May. Respondents reported moderately stronger demand for commercial and industrial loans and residential and commercial real estate loans. Bankers also noted a modest rise in demand for consumer installment and agricultural loans. Bankers reported stable loan quality compared to a year ago, and nearly all bankers expected the outlook for loan quality to either improve or remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories, and respondents reported a minor decline in deposits.

Agriculture. Farm income prospects for crop producers dimmed since the last survey period, while profitability in the livestock sector improved. Winter wheat growers were concerned that the poor condition of the crop would limit profits despite an upswing in wheat prices. Corn and soybean prices were steady since the last survey period but remained well below year-ago levels. Spring planting prompted increased demand for operating loans to pay for crop inputs. In contrast, profit margins for livestock operators improved further as low cattle and hog supplies pushed prices higher and feed costs remained flat. Strong demand for grazing pastures supported a modest rise in ranchland values, but cropland values generally held steady. Farm loan repayment rates dipped below year ago-levels, and District bankers reported a slight rise in carry-over debt relative to last year.

Energy. District energy activity held steady in April and early May. Contacts reported stable drilling and business activity during the survey period with positive expectations going into the summer season. The number of active oil drilling rigs increased, particularly in Oklahoma and New Mexico. In contrast, the number of active natural gas drilling rigs decreased due to continued low prices and high storage levels. The price of crude oil has remained stable but high, and was not expected to deviate in the near future. The price of natural gas was still above year-ago levels but was expected to decrease over the next couple of weeks due to typically weaker demand in the summer. Current high oil prices continued to maintain profits and drive up capital expenditures. Hiring in the energy sector slowed since the last survey period, but was expected to pick up in the next several months.

Wages and Prices. Prices continued to rise in most industries, and wage pressures increased slightly, particularly for skilled positions. Retail prices rose further, although the pace of growth was expected to slow in coming months. Prices of manufacturing materials increased moderately compared to the previous period, and more firms began to raise selling prices. Transportation companies reported rising input and selling prices, and menu prices continued to increase for restaurants due to elevated food costs. Construction materials prices moved slightly higher, particularly for drywall and roofing, and were expected to increase further. Wage pressures increased slightly in some industries, particularly those noting difficulties finding qualified labor, such as truck drivers, machinists, high-tech, and other types of skilled workers. Several contacts commented on the increased competition for workers due to the improving labor market.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Most manufacturers reported an increase in demand. Retail and automobile sales strengthened. Demand improved or held steady in most nonfinancial services industries. Activity in the housing sector was robust, and office and industrial leasing activity remained strong. Growth in loan demand increased. Drilling and oil field services activity remained solid, while agricultural conditions worsened. Price increases were noted in some industries. Employment was flat to up slightly, with several reports of wage pressures. Outlooks were optimistic across most industries.

Prices Most responding firms said prices were stable to up slightly over the reporting period. Manufacturers noted higher selling prices for scrap metal and a few contacts reported rising food prices, particularly for dairy, meat and produce. Airlines said airfares and fees continued to increase. Retail prices were mostly unchanged and vehicle selling prices held steady, although auto dealers said rebates were being offered by some auto manufacturers. In contrast, an aircraft parts manufacturer said selling prices were down from year ago levels, and a transportation services firm noted a decline in fuel costs.

Natural gas prices rose from April to early May, but fell back in mid-May to a level similar to the beginning of the reporting period. The price of West Texas Intermediate was flat over the reporting period. Retail gasoline prices increased over the last six weeks, while on-highway diesel and feed stock prices were flat.

Labor Market Employment levels held steady or increased at nearly all responding firms and some contacts noted continued difficulty in finding skilled workers. Food, cement, lumber, primary metals, fabricated metals and transportation equipment manufacturers noted continued hiring. An automobile dealer noted plans to hire several workers for a new body shop that will be opening later this year, and an airline reported hiring pilots and flight attendants in the last six weeks. Energy industry contacts said increased appetite for drilling in the Permian Basin was exacerbating an already tight labor market, and housing sector contacts continued to report construction worker shortages.

There were several reports of upward wage pressure. A staffing firm said that employers are paying higher relocation bonuses for talented personnel, particularly engineers. Wage pressures appeared to be the strongest for skilled workers in the energy and construction sectors, but staffing firms, high tech, transportation equipment, fabricated metals and lumber manufacturers also noted upward pressure. A primary metal manufacturer raised wages for hourly employees, and a few firms noted increases in health insurance costs.

Manufacturing Reports from manufacturers were mostly positive, although there were a few reports of slowing demand. Construction-related manufacturers reported mixed demand. A lumber contact reported a pullback in demand since the last report. Cement producers said demand held steady or increased slightly because of favorable weather conditions, but one respondent noted that the lack of developed lots in Houston was affecting business. Primary metals producers noted very strong demand in April but a slow start to May, and fabricated metals manufacturers saw a broad-based increase in orders.

High tech manufacturers said that growth in sales and orders continued at a moderate pace, largely due to increases in overall consumer demand and growth in new products such as cloud services and wearable electronics. Inventories were at or near desired levels. Most firms expect growth to continue at a moderate to slightly faster pace, although one contact noted that there is still a considerable amount of uncertainty about the industry outlook.

Food producers reported steady demand, and transportation equipment manufacturers said demand was flat to up over the last six weeks. Refinery utilization rates rose over the reporting period with winding down of the spring maintenance season. Chemical producers reported lower production rates. Outlooks of refiners and chemical producers remained positive.

Retail Sales Retail sales strengthened during the reporting period boosted by favorable weather conditions and a late Easter holiday that shifted sales into April; demand was up in the mid-single digits from last year’s levels. Strength was noted in apparel, handbags, patio furniture and sporting goods. Two national retailers said that demand in Texas continued to outperform the national average. Outlooks were positive.

Automobile sales increased since the previous report. Respondents noted that sales were particularly strong in April, and demand was up year over year. Inventories varied by manufacturer, and generally were not a source of concern. Automobile contacts expect continued growth in sales through year-end.

Nonfinancial Services Demand for most nonfinancial services was flat to up since the last report. Staffing firms said growth in orders was mixed. One contact reported a slight decline in the pace of activity, while another contact reported that demand for direct hires in April was the highest in 10 years but orders slowed somewhat in May. Overall demand remained strong, and some contacts were more optimistic than they were six weeks ago. Accounting firms said demand held steady at high levels. Tax business continued to wind down but audit and transactions work remained strong. Demand for legal services decreased in the last six weeks, mainly stemming from a decline in litigation activity. Real estate related business continued to grow, and corporate work remained softer than desired. Contacts at law firms were less optimistic in their outlooks.

Transportation service firms said overall cargo volumes increased over the reporting period and outlooks were mostly positive. Intermodal cargo volumes climbed up over the last month but were flat year over year. Railroad contacts reported a broad-based increase in volumes, with particular strength in shipments of crushed stone, lumber and wood, motor vehicles and nonmetallic minerals. Small parcel shipments grew at a faster pace in April, with growth in demand driven by strength in retail trade.

Passenger airline demand improved over the reporting period. Demand was up from year ago levels, and contacts noted that the outlook has improved modestly.

Construction and Real Estate Activity in the housing sector was strong over the reporting period. Respondents reported a seasonal pickup in both traffic and home sales, although one contact noted a slight slowing in the pace of activity. Home prices continued to increase but at a slower pace than last year. Land and lot prices remained elevated due to limited supply, and one contact noted that it is becoming difficult to underwrite loans in a few areas at these prices. Robust apartment demand continued to keep vacancies low even with high levels of construction activity. Moderate increases in rents were reported in several major Texas metros. Housing and multifamily contacts were optimistic in their outlooks.

Office leasing activity remained robust, and contacts noted strong growth in rents. Occupancy remained at high levels, and contacts in Houston said they are beginning to see interest from foreign investors. Demand for industrial space was strong, especially in Dallas. Outlooks for Texas commercial real estate remained positive.

Financial Services Growth in loan demand picked up slightly in the last six weeks. Commercial and residential real estate lending improved modestly as projects continued to respond to the growth in metro areas. Mortgages and home equity lines of credit gained traction after some softness in previous months. Demand for auto loans rebounded, and other types of consumer loans edged up slightly. Loan quality continued to improve and loan rates remained low due to strong competition for borrowers. Deposit volumes held steady and rates remained low. Outlooks were improved; however, contacts noted that regulatory burden remained costly and frustrating.

Energy Demand for oilfield services was robust in the Eleventh District. All of the increase in the Texas rig count came from drilling activity in the Permian Basin in West Texas, and contacts said that oil field service equipment in the Permian Basin was essentially leased out for the year. Margins for oilfield service providers were up in the Permian Basin, but remained very tight in the Eagle Ford region. Geological service firms continued to see robust demand. Outlooks for the second quarter were positive.

Agriculture District drought conditions worsened further over the reporting period. Most of the Texas panhandle fell into exceptional drought, the most severe drought classification. Winter wheat crop conditions deteriorated and a relatively large share of Texas' wheat acres were abandoned and will not be harvested this year. Cotton planting season began and farmers were already concerned about poor production due to the very dry soil, particularly for dryland cotton. Agricultural commodity prices stayed strong. Export sales for cotton fell over the last six weeks in response to high cotton prices.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to improve moderately during the reporting period of early April through mid-May. Price inflation and upward wage gains remained modest overall. Retail sales picked up a bit relative to the prior reporting period, while demand for business and consumer services was mixed across industries. Manufacturing activity edged up. Demand for agricultural and resource-related products increased, but various factors suppressed output. Housing market activity slowed in some areas, but commercial real estate conditions generally improved. Reports from financial institutions indicated that loan demand increased and credit quality remained strong.

Prices and Wages

Price inflation remained quite modest for most final goods and services. Prices of raw materials used in construction rose slightly on balance. Restaurant industry contacts indicated that meat and seafood prices increased significantly. With cattle prices at record highs, the price of beef is projected to rise further through the second quarter. Food price inflation more broadly has picked up because of the drought in California.

Upward wage pressures were limited overall, but contacts continued to observe relatively large increases in compensation for certain occupations. Contacts reported increased wage pressures in the construction industry as a consequence of shortages of qualified construction management personnel, particularly in fast-growing urban areas. Software developers and engineers continued to experience rapid compensation growth. Most firms expect wage gains of 2 to 3% in 2014.

Retail Trade and Services

Consumer spending was up slightly relative to the previous reporting period. Reports indicated that the pace of sales at some department stores was slow, prompting caution for inventory accumulation. Some retailers have announced strategic store closures in favor of online distribution. Contacts noted that demand for autos and home-related goods was relatively strong. Auto dealerships reported robust sales growth for new cars and more modest growth for used vehicles. On balance, contacts remained optimistic about growth prospects for consumer spending over the next 12 months.

Demand for business and consumer services was mixed. Contacts pointed to healthy overall conditions in the technology services sector, as businesses throughout the economy expand their investments in software, security, cloud, big data, and mobile products. In the food services industry, monthly same-store sales and transaction counts declined further, although the declines in April were less severe than in the preceding three months. Providers of health-care services expect demand to increase as more individuals gain health insurance coverage through provisions of the federal Affordable Care Act. The level of Hawaiian travel and tourism activity dipped down in recent months relative to the same period last year.

Manufacturing

District manufacturing activity edged up during the reporting period of early April through mid-May. Demand for semiconductors improved modestly. Contacts expect utilization rates at semiconductor factories to rise during the second half of the year. Reports from the commercial aircraft and metals fabrication industries noted that production remained high due to sustained backlogs, although new orders have been coming in slowly. Many drug manufacturers experienced modest sales growth, driven largely by the introduction of innovative products rather than existing drugs. Defense-related manufacturers ratcheted down their sales outlook relative to the previous Beige Book, as the pace of new orders slowed. A manufacturer of renewable energy equipment noted that capacity utilization ticked up. A utilities provider reported increasing sales of electricity and natural gas to industrial customers, including manufacturers of wood products, aerospace parts, and refined metals.

Agriculture and Resource-related Industries

Demand for assorted fruits and vegetables and livestock products increased, but production in agricultural and resource-related industries was uneven across the District. Concerns about water costs and availability mounted in some areas. Contacts noted that drought conditions in California and Arizona led to reduced herd sizes and decreased plantings of annual crops, including tomatoes and rice. On the other hand, farmers in Idaho anticipated adequate water supplies and planted grains, hay, and potatoes ahead of schedule, expecting the level of plantings in 2014 to be similar to 2013. In general, dairy operations benefited from low feed costs. Pork production remained weak as a fatal virus swept through pig farms in some areas. Contacts noted that demand from China for fertilizer and logs was strong. Year-over-year crude oil production expanded robustly and outpaced demand growth.

Real Estate and Construction

Demand for homes stepped down, while activity in commercial real estate markets expanded. Home prices across the District continued to move up, although at a slower pace in parts of Arizona, Idaho, and Washington relative to the previous Beige Book. The pace of home sales slowed or declined in some areas as well, but most contacts expect sales to pick up later this year. Contacts indicated that severe weather conditions and low expected future growth of house prices were the most important factors holding back home sales on a national level. Reports on current construction of residential properties varied substantially across geographic areas, although the vast majority of contacts expect housing starts in their region to rise over the next 12 months. Commercial real estate activity improved, with lower vacancy rates reported in many areas. Contacts reported robust demand for large blocks of high-quality commercial space in the San Francisco Bay Area. In several regions, public infrastructure projects and a number of high-rise commercial construction projects have been announced or are under way.

Financial Institutions

Loan demand increased overall, and most contacts noted that credit quality remained strong. Consumers exhibited solid demand for auto loans. New home mortgage and refinance activity was largely stable, but contacts noted that first-time homebuyers faced challenges qualifying for mortgages. Relative to a year ago, contacts noted that less creditworthy individuals have been applying for refinancing. A few contacts observed an uptick in loan demand from small businesses and increased loan growth at community banks. Lenders competed vigorously on rates and terms for high-quality borrowers, and contacts noted that some financial institutions relaxed underwriting standards in an effort to win new business or maintain existing relationships. The pace of initial public offerings remained high in the Internet and digital media sectors but slowed a bit in the broader technology sector. Reports indicated that the value and volume of private equity financing picked up.