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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

October 2014

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

October 2014

TABLE OF CONTENTS

SUMMARY i

First District—Boston I-1

Second District—New York II-1

Third District—Philadelphia III-1

Fourth District—Cleveland IV-1

Fifth District—Richmond V-1

Sixth District—Atlanta VI-1

Seventh District—Chicago VII-1

Eighth District—St. Louis VIII-1

Ninth District—Minneapolis IX-1

Tenth District—Kansas City X-1

Eleventh District—Dallas XI-1

Twelfth District—San Francisco XII-1

Summary*

Reports from the twelve Federal Reserve Districts generally described modest to moderate economic growth at a pace similar to that noted in the previous Beige Book. Moderate growth was reported by the Cleveland, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco Districts, while modest growth was reported by the New York, Philadelphia, Richmond, Atlanta, and Kansas City Districts. In the Boston District, reports from business contacts painted a mixed picture of economic conditions. In addition, several Districts noted that contacts were generally optimistic about future activity.

Most Districts reported overall growth in consumer spending that ranged from slight to moderate, at a pace that was often similar to that reported in the previous Beige Book. However, general merchandise retailers in New York noted that sales were weaker on balance since the previous report. Several District reports indicated that retailers were relatively optimistic about the remainder of the year. Meanwhile, tourism activity remained upbeat in several areas, with some reports of higher occupancy rates and solid advance bookings for travel and lodging.

Several Districts reported that nonfinancial services grew at a moderate pace since the previous Beige Book. Districts reporting on transportation services generally noted growth in this sector, with a few pointing to capacity constraints in railroads, trucking, or both. Manufacturing activity increased in most Districts since the previous Beige Book; contacts in the Boston, Philadelphia, Atlanta, and Kansas City Districts reported positive near-term outlooks.

Residential construction and real estate activity were mixed since the previous report. Commercial construction and real estate activity grew in most Districts. Banking conditions continued to improve relative to the previous Beige Book. Commercial loan volumes increased in nearly all reporting Districts. However, consumer loan demand was mixed, and some Districts pointed to low or reduced levels of demand for refinancing. Credit standards generally remained unchanged, and there were no reports of deterioration in credit quality.

* Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before October 6, 2014. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Agricultural conditions were mixed since the previous Beige Book. Prices for some crops declined, driven in part by very strong realized or anticipated production. These lower prices for some agricultural commodities were seen as weighing on producers' incomes, but as benefiting those using the commodities as inputs. In the energy sector, coal production was mixed and oil and natural gas production generally increased from already-high levels.

Employment continued to expand at about the same pace as that reported in the previous Beige Book. Most Districts reported that some employers had difficulty finding qualified workers for certain positions. A number of Districts characterized overall wage growth as modest, but reported upward wage pressures for particular industries and occupations, such as skilled labor in construction and manufacturing.

Consistent with the previous Beige Book, price pressures remained subdued, with Districts reporting little to no change in price levels or modest increases. Firms generally reported that input prices were unchanged or up slightly.

Consumer Spending and Tourism

Most Districts described growth in consumer spending as slight to moderate, and at a pace roughly similar to that reported in the previous Beige Book. In particular, the Boston, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts reported moderate growth; Philadelphia reported only slight growth in non-auto retail sales, and retailers in the Atlanta and San Francisco Districts also cited a slight improvement in sales. General merchandise sales in the New York District were weaker on balance since the previous report. Boston, New York, and Chicago reported that inventories were at desired levels. In Philadelphia, many retailers were avoiding the need for deeper discounting; however, New York and Cleveland reported that some contacts were running more promotions than usual. Boston, Philadelphia, Chicago, Kansas City, Dallas, and San Francisco indicated that retail contacts were relatively optimistic about the remainder of the year. In Chicago and Dallas, retailers were expecting that sales during the upcoming holiday shopping season would be up slightly from a year earlier.

Growth in auto sales varied across Districts, but was generally positive. In the New York District auto dealers reported that sales were steady to slightly stronger, while sales increased modestly in the Kansas City District. Auto dealers continued to report strong growth in the Philadelphia District. Lower gas prices spurred sales of larger

vehicles in the Chicago District. Cleveland reported that new auto sales were down slightly in August from a year ago, but year-to-date sales were higher than the same period last year. Cleveland and Kansas City also reported solid sales of larger vehicles, such as light trucks and SUVs. In the Kansas City District, auto inventories fell; in Cleveland, inventory reports were mixed. Dallas reported that contacts were satisfied with their inventory levels. Philadelphia, Kansas City, and Dallas noted that dealers were optimistic about sales prospects for the rest of the year.

Tourism activity was relatively solid in several areas, with upbeat reports from the Boston, New York, Richmond, Atlanta, and Minneapolis Districts. In the Kansas City District, tourism fell from the previous month but was up strongly from a year ago. Growth was modest in Philadelphia. Boston, New York, Philadelphia, Atlanta, and San Francisco reported higher hotel occupancy rates in at least some parts of their Districts. Boston noted that restaurant revenues increased relative to a year ago. Advance bookings for travel and lodging were strong in the Philadelphia, Richmond, and Minneapolis Districts. In the Atlanta District, hospitality contacts maintained a positive outlook for the remainder of 2014 and the beginning of 2015.

Nonfinancial Services

A number of Districts reported that activity in the nonfinancial services sector advanced since the previous Beige Book. The Boston District reported generally higher demand for consulting and advertising services. Philadelphia noted that over three-fourths of all service-sector contacts reported expectations that growth trends will remain positive over the next six months. Richmond reported that technology firms and engineering companies noted stronger revenue growth; Dallas indicated that demand for accounting services rose further from an already-high level; and Dallas and San Francisco noted that demand for legal services picked up in some areas. Staffing services increased in many Districts, including New York, Philadelphia, Cleveland, Richmond, Chicago, and Dallas. Philadelphia indicated that staffing requests increased for both temporary and permanent positions. A contact from a staffing firm in the Chicago District reported strong orders but noted that improving labor market conditions were leading to increased difficulties in finding qualified workers.

Districts reporting on transportation services generally noted growth since the previous report, with a few pointing to capacity constraints in railroads, trucking, or both.

Atlanta reported increased railroad shipments and strong trucking freight demand. Contacts at trucking firms and railroads in the Cleveland District noted that insufficient capacity is a major issue that is currently confronting the industry. In the Minneapolis District, capacity constraints in freight rail have increased demand for trucking services and led to increased stockpiles at some iron ore production facilities. A trucking firm in the Kansas City District cited supply chain disruptions and new regulations as having slowed freight traffic. Dallas noted that air cargo volumes continued their upward trend, and Richmond indicated that activity remains strong at District ports. St. Louis reported some expansion plans for freight firms.

Manufacturing

Manufacturing activity increased in most Districts since the previous Beige Book. However, New York noted that manufacturing growth had stalled, and Boston indicated that their contacts cited weaker results than in the past few reports. The outlook for manufacturing was positive in a number of Districts.

Within manufacturing, growth was reported across a broad range of products. Cleveland, Chicago, and San Francisco noted increased steel demand. The Chicago and St. Louis Districts noted strength in the aerospace sector; however, San Francisco reported that aerospace and defense capacity utilization declined. Demand for construction materials or equipment increased in Philadelphia, Cleveland, Chicago, and St. Louis. Manufacturers reported continued demand from the energy sector in the Philadelphia and Cleveland Districts. Richmond and San Francisco noted strong demand for medical equipment. San Francisco reported that worldwide semiconductor sales were up markedly over the previous year. In contrast, a food producer in the Richmond District said that demand was flat; St. Louis and Minneapolis reported layoffs or plant closures by food producers; and Kansas City noted slower activity at some food processing plants. Chicago reported weaker demand for agricultural and mining equipment.

Real Estate and Construction

Reports on residential construction and real estate activity were mixed. New York noted that single-family construction was sluggish in some areas, but that multifamily construction increased. Philadelphia reported only slight growth in home construction. In August, single-family construction starts in the Cleveland District reached their highest level so far this year, though the number of starts year-to-date remained slightly lower

than last year. Richmond noted that residential construction across the District increased slightly for custom homes. Atlanta reported that multifamily construction continued to increase across much of the District, while Chicago indicated that both single- and multifamily construction continued to expand. Residential real estate contacts in the Atlanta District indicated that existing home sales and prices remained ahead of last year's levels and inventory levels were down from a year ago. Chicago noted that home sales were somewhat lower, and growth in home prices and residential rents slowed. San Francisco reported that sales of single-family homes were stable since the previous report.

Commercial construction and real estate activity grew in most Districts. Richmond, St. Louis, and San Francisco reported increased commercial construction, industrial construction, or both. Cleveland noted that a majority of commercial contractors saw increased construction activity relative to a year ago. Commercial contractors in the Atlanta District saw an increase in construction activity across many property types. In Minneapolis, however, commercial construction activity declined. Richmond reported that commercial real estate activity improved modestly over the past several weeks. The New York District noted that the New York City office market continued to strengthen. Atlanta noted that many commercial brokers saw growth in activity. Chicago noted that commercial real estate activity continued to expand. Kansas City indicated that commercial vacancy rates declined and absorption and sales increased. Boston noted that commercial real estate fundamentals are either holding steady or improving.

Banking and Finance

In most Districts, banking conditions continued to improve relative to the previous Beige Book, with net increases in loan volumes reported in a number of Districts.

Since the previous Beige Book, New York reported that consumer loan demand had leveled off, Cleveland reported that consumer lending was stable, and Atlanta, St. Louis, and Kansas City noted that consumer loan demand increased. Chicago reported strong growth in auto lending. New York reported decreased demand for loan refinancing, Philadelphia noted negligible demand for refinancing, and Richmond reported that refinancing demand was mostly unchanged, but down in some areas.

Demand for business credit expanded since the previous Beige Book. New York reported increased demand for commercial mortgages. Philadelphia noted increased loan

volume for commercial and industrial loans. Cleveland, Atlanta, St. Louis, and San Francisco noted increased commercial loan demand. Chicago noted that business demand for equipment and commercial real estate financing rose. Financing for mergers and acquisitions as well as for capital expenditures rose in the Dallas District. Kansas City noted slight increases in commercial and agricultural lending.

There were no reports of deterioration in credit quality. New York reported that delinquency rates continued to decline, particularly for commercial loans and mortgages. Philadelphia banking contacts described steady improvement in credit quality, and San Francisco noted that asset quality has improved since the previous report. Most bankers in the Kansas City District reported that loan quality was unchanged compared with a year ago.

Credit standards generally remained unchanged since the previous Beige Book. Cleveland noted that no changes were made to loan-application standards during the past six weeks, but lenders slightly relaxed terms and conditions. Some contacts in the Philadelphia District said that heated competition for loans was resulting in a slight rise in credit risks.

Agriculture and Natural Resources

Prices for many crops continued to decline since the previous Beige Book, driven in part by very strong realized or anticipated crop yields. This higher production is expected to offset some of the effect of lower prices on farm incomes. Chicago, St. Louis, and Kansas City reported very good crop conditions at the beginning of the harvest; additionally, Chicago and Minneapolis expect large corn and soybean harvests. Drought conditions persisted in parts of the Atlanta, Dallas, and San Francisco Districts. Atlanta, Chicago, Minneapolis, and Dallas noted that livestock, poultry, and dairy producers had benefited from increased output prices and lower feed costs.

Since the previous Beige Book, oil exploration activity increased in the Minneapolis, Kansas City, and Dallas Districts. Richmond and Minneapolis noted increases in natural gas production, and San Francisco reported increased natural gas and electricity sales to manufacturers. Compared with a year earlier, coal production was flat in Cleveland, mixed in Richmond, and increased in St. Louis. Recent decreases in oil prices were reported by Atlanta and Kansas City; natural gas price decreases were

reported by Cleveland, Richmond, and Kansas City. Iron ore production in the Minneapolis District held steady since the previous report.

Employment, Wages, and Prices

The pace of employment growth was about the same as that reported in the previous Beige Book. Most Districts reported that some employers had difficulty finding qualified workers for certain positions. In particular, manufacturers in the Boston District said that they continue to look for machinists; Chicago noted that difficulties in finding skilled labor have often delayed construction projects; and in the Dallas District a shortage of workers in heavy construction and engineering was causing some delays in projects for the petrochemical industry. Contacts in Richmond, Minneapolis, and Kansas City noted difficulty in filling openings for truck drivers.

A number of Districts characterized wage growth as modest, though several also reported upward wage pressures for particular industries and occupations, such as skilled labor in construction and manufacturing. Cleveland, Richmond, and Kansas City noted upward wage pressures for transportation workers; Richmond also reported upward wage pressures for skilled engineers, managers, information technology professionals, and bankers. San Francisco noted that software developers were receiving above-average wage increases. New York reported that workers were more frequently leaving jobs for higher pay, while a contact in the St. Louis District noted increased turnover of skilled employees who were switching to higher-paying jobs.

Consistent with the previous Beige Book, overall price pressures remained subdued, with Districts reporting little to no change in price levels or modest increases. Firms generally reported that input prices were unchanged or up slightly. Districts noted that several commodity prices fell since the previous report, although cattle, hog, and dairy prices remained at elevated levels. New York reported that cost pressures have largely subsided among manufacturers, but remained fairly widespread among service firms. Firms in the Atlanta District indicated that their pricing power remained relatively weak. However, in Chicago, a number of manufacturers expected to be able to raise prices, especially in the auto industry. St. Louis reported that some retail dealers of construction materials increased prices. Minneapolis noted that metals prices decreased somewhat since the previous report. Restaurant menu prices in Kansas City rose more

slowly than in previous surveys; San Francisco reported that restaurant prices increased slightly in July and August.

FIRST DISTRICT – BOSTON

Reports from business contacts paint a mixed picture of economic conditions in the First District. Manufacturers cite weaker results than in the last few reports and retailers are seeing flat to moderately increasing sales, while the tourist sector continues to be robust. Results from the consulting and advertising sector are generally quite positive. Commercial real estate markets are level or improving in the region, while residential real estate contacts mostly report declines in sales and prices, but ongoing cautious optimism. Firms are not generally hiring, on net, but those with substantial increases in business—one manufacturer and several in consulting and advertising—are raising their headcounts. Price pressures remain minimal according to contacts, with manufacturers and retailers noting only selective and modest price increases.

Retail and Tourism

Retail contacts for this round report comparable-store sales that are flat or increasing year-over-year; those with increases cite mid-to-high single digit growth from a year earlier. Spending is strong for furniture, household items, leisure and sporting goods, and apparel. Inventories are either “healthy,” slightly up, or slightly down, depending on the contact. Respondents cite some modest price increases (2 percent to 3 percent) on certain items and anticipate this trend will continue. For the rest of the year, contacts continue to predict low-to-mid single-digit sales increases on an annual basis, with an outlook for the U.S. economy that ranges from “sideways growth” to “an optimistic outlook for steady growth.”

The Boston-area economy continues to enjoy a strong boost from travel-related spending. In August 2014, hotel occupancy rates were up 12 percent year-over-year, while average nightly room rates were up almost 18 percent from August 2013. Through August, restaurant revenues were up 3.5 percent year-over-year, while attendance at museums and other attractions was up 2.2 percent. Though the results are not yet in for September, advance activity was strong for both September and October, traditionally the peak travel months. The hotel industry is predicting a 7 percent revenue increase for 2015 over 2014, with most of this growth reflecting rising room rates.

Manufacturing and Related Services

Of the 11 manufacturing firms contacted this cycle, five report some weakness in sales, a much higher number than in any recent cycle. The reasons cited for the weakness are varied. A manufacturer of industrial motors and brakes says that August was typically slow but that sales had not bounced back in September as much as they usually do, with orders down about 5 percent year-on-year. A furniture maker cites a 10 percent dropoff in sales during the winter which continued through the summer. A firm making advertising products says that sales have been declining 10 percent per year for a while.

One contact expresses caution about an “order bubble” in commercial aviation, an industry that has generally been a robust source of growth in the region. According to the contact, airlines order jet planes to make sure that if they need them, they have a slot in the queue; the worry is that at some point there could be a wave of cancellations.

None of our contacts reports excessive pricing pressure from suppliers or excessive pushback on price increases from customers. One contact says it is “always a battle,” albeit successful, to convince customers to accept price increases. None of our contacts is laying off, but only one reports large hiring

increases. A contact in the media business says they are “very careful with headcount.” The one firm to report substantial hiring, a biotech firm, cites rising costs of hiring skilled workers in New England. As usual, several contacts say they are always looking for workers with particular manufacturing skills, such as machinists. Our contacts report no significant changes in inventories. Most firms cite increased capital spending more or less in line with their plans; only the biotech firm reports major increases.

In general, the manufacturing outlook is positive but very guarded. Two firms, the manufacturer of motors and brakes and a firm in the textile and chemical businesses, say that they are waiting to see how things play out in the fall.

Selected Business Services

Most contacts report that demand for consulting and advertising is up from a year ago, although the pace of growth varies across sectors and firms. Government and strategy consultants note a strong uptick in requests for proposals and eagerly await contract award decisions. A high-end economic consulting firm is still overwhelmed with work, mostly related to mortgage-backed securities (MBS) litigation, and at 12 percent growth year-over-year is now beyond capacity. An advertising merchandise firm is slightly outpacing the 5 percent growth they estimate the industry is experiencing on average; they are seeing less pushback on prices from their large clients and cite an increase in large orders. In healthcare consulting, contacted firms’ revenues range from flat to up 10 percent from a year ago.

Prices are increasing in a bimodal fashion for contacts in consulting: Firms with relatively flat revenue are holding price structures constant for now, even as they bid on more jobs and anticipate winning their “usual” fraction; those whose business is booming are raising prices somewhat, taking on new personnel, raising wages, and experiencing increased compliance costs, and revenue growth is still outstripping costs. An advertising materials firm that has exhibited steady growth is keeping to its 5 percent increase in staff for this year, while the better-faring healthcare consulting firms are increasing employment in the 6 percent range. These firms are generally filling client-facing salesperson roles with some ease, and developer and e-commerce related roles with greater difficulty.

All contacts are hopeful about the future; they say that macroeconomic conditions are improving. Even the slower-growing firms see increases in demand and additional deals in the pipeline, and estimates for next year’s growth range from 5 percent to 15 percent. The government and strategy consulting contacts’ main concern is that they secure a normal percentage of the contracts for which they are contending. The business strategy contact notes strong business in the Northeast, but is concerned over a lack of new businesses being formed. The economic analysis firm continues to expect MBS-related work to dry up soon and is comfortable with the idea of throttling back growth when it happens. Healthcare consulting contacts feel somewhat at the mercy of government healthcare reforms, but generally feel that “the wind is at their backs” and growth will be sustained for the foreseeable future.

Commercial Real Estate

Commercial real estate fundamentals are either holding steady or improving across the First District. In Boston, contacts report that rents continue to rise in the popular Fort Point Channel area and have even started to increase in portions of the Financial District after several flat months. Healthy demand for office space and lack of new office construction are seen as the forces behind the latest rent

increases in Boston, which are perceived as being in excess of increases in operating costs. Office leasing is also reportedly strong in Boston's inner suburbs, such as Waltham and Burlington. Construction activity in greater Boston is reportedly steady, but at a high level, with an emphasis on mixed use and "adaptive reuse" of existing structures. Labor shortages and associated high labor costs are seen as potential constraints on the growth of construction activity moving forward, in Boston and more broadly within Massachusetts. In Providence, leasing activity picked up modestly in both the office and industrial sectors since the previous report and industrial space remains in short supply in relation to demand. In greater Portland, the retail sector continues to grow, resulting in higher rental rates downtown and increased construction of small-scale retail outlets in surrounding areas. Maine's hospitality sector also remains strong, with better-than-expected occupancy rates at recently opened hotels in Portland and new hotels under construction around the state. In Hartford, leasing volume is unchanged in recent weeks and there is no significant construction activity reported. While that city's office vacancy rate has declined slightly in recent months, there has been no noticeable increase in asking rents. Also in greater Hartford, investment sales demand remains healthy and the number of properties being placed for sale is on the rise. A similar increase in supply of buildings for sale is reported for greater Boston, and contacts in both cities infer that a growing number of owners believe that prices are at or near their peak, borrowing costs are near their trough, or both. Contacts also report that demand for Boston's commercial real estate, especially from foreign buyers, remains strong and is expected to continue so for the foreseeable future.

Contacts are either cautiously optimistic (as in Hartford and Providence) or optimistic (Boston and Portland) that commercial real estate fundamentals will continue to improve. In both Providence and Hartford, contacts note that uncertainty over the outcomes of upcoming state and/or local elections is contributing to uncertainty in the local economic outlook.

Residential Real Estate

Closed sales of both single family homes and condominiums declined in August compared with a year earlier in at least four of the New England states. In Maine, by contrast, sales of single family homes increased as condominium sales decreased. Information for New Hampshire is not available. The median sales price also declined relative to August of last year for single family homes and condominiums in at least four states. The exception is Massachusetts, where prices for single family homes increased year-over-year for the twenty-third consecutive month and condominium prices rose for the fifteenth consecutive month. Massachusetts contacts say the sales decline and price increases are driven primarily by a shortage of inventory, as demand is steady; inventories have been falling on a year-over-year basis for more than two years. Contacts say affordability is a concern: "With prices on the rise, it's becoming more difficult to save the down payment, especially with rents as high as they are. We are hearing that buyers are approaching their threshold for what they are willing to pay." In contrast, Maine is seeing inventory increases and contacts expect to be busy in the fall market. In Connecticut and Maine, contacts report a need for higher paying jobs in their states to help sell the inventory of non-starter homes. As one contact in Maine stated, "We need the middle class to feel better. Right now they question what the next few years will be like." Notwithstanding declines in closed sales and median sales prices, residential real estate contacts say they are cautious but optimistic.

SECOND DISTRICT--NEW YORK

Growth in the Second District's economy has slowed to a somewhat more modest pace since the last report. Prices of finished goods and services continue to rise at a subdued pace; cost pressures remain fairly widespread among service firms but have largely subsided among manufacturers. Labor market conditions have shown further signs of strengthening, except in the manufacturing sector, where hiring activity has slowed. Contacts in most industry sectors report that business has been steady or improving, though manufacturers report that growth has stalled in recent weeks. General merchandise retailers report that sales were mixed but, on balance, weaker since the previous report; auto dealers report that sales were steady to slightly stronger. Tourism activity has continued to show strength since the last report. Housing markets have been steady or stronger, with inventories rising to more normal levels. New York City's commercial real estate market has continued to strengthen moderately, and there are scattered signs of a pickup in commercial construction. Finally, banks report that household loan demand has leveled off but that demand from commercial borrowers continues to grow; delinquency rates continue to decline, particularly for commercial loans and mortgages.

Consumer Spending

General merchandise retailers say that sales were reasonably robust in August but mixed to weaker in September. Two major retail chains reported that sales, which were on or ahead of plan in August, softened noticeably in September and were below plan. Retail contacts at upstate malls report that sales were generally flat in both August and September, with some strength noted in back-to-school sales. Reports on inventories were mixed in September, but on balance, stocks are reported to be at or near desired levels. Prices are mostly described as steady, though some contacts characterize the environment as increasingly promotional.

Auto dealers across upstate New York characterize sales as steady but fairly strong. Buffalo area dealers report that that new vehicle sales continued to increase moderately in August and

September, while sales of used vehicles remained soft. Rochester area dealers report that new vehicle sales were flat in August and steady to up slightly in September; they note favorable market conditions for both new and used cars. Auto dealers in both areas continue to report that both wholesale and retail credit conditions remain in good shape.

Tourism activity has remained robust since the previous report. Business at Broadway theaters continued to show strength in August and September, with attendance up more than 10 percent from a year earlier and revenues up roughly 13 percent. Hotel occupancy rates in New York City have remained near record levels, while room rates have risen moderately. Hotel occupancy rates have also continued to climb in the Buffalo and Albany areas but edged back in metropolitan Rochester. Consumer confidence in the Middle Atlantic region (NY, NJ, PA) slipped in September, based on the Conference Board's latest survey.

Construction and Real Estate

The District's housing markets have been steady to stronger since the last report, while inventories have risen from unusually low levels in some areas. Rents have leveled off in Manhattan and Brooklyn—in part reflecting extensive luxury rental development coming on line—while rents in Queens have continued to increase briskly. New York City's co-op and condo market was generally steady in the third quarter. Resale prices for apartments were little changed in Manhattan but continued to rise moderately in Brooklyn and Queens; sales volume was down more than 10 percent from the extraordinarily high levels of a year earlier but little changed from the second quarter.

Northern New Jersey's housing market has continued to be mixed. Demand for single-family homes has remained sluggish, and so has new single-family construction, as builders remain reluctant to build for inventory. In contrast, a strong rental market has continued to spur multi-family construction, especially in areas easily accessible to New York City. Housing markets in western New York State flattened out in August and September, as both sales volume and prices leveled off.

Multiple offers have become less common, as the inventory of available homes has increased from low levels.

New York City's office market continued to strengthen in the third quarter: Office availability rates declined moderately in the Midtown and Midtown South markets and fell more noticeably in Lower Manhattan. Asking rents continued to rise and were up 5 percent to 10 percent from a year earlier. There are a number of major commercial developments under construction in Manhattan, and an industry contact in northern New Jersey notes that there has been somewhat of a pickup in commercial construction there, albeit from low levels.

Other Business Activity

Manufacturing firms in the District report that growth, which had been fairly robust through the summer, has stalled since the last report. Contacts in other industry sectors, however, report that business has been steady or expanding. Businesses generally report steady to modest increases in their selling prices. Reports on input costs have been mixed: Although service firms continue to report widespread increases in input prices, manufacturers generally report more that costs have leveled off.

The labor market has shown further signs of strengthening since the previous report. One major New York City employment agency notes brisk hiring activity and characterizes labor demand as increasingly robust—particularly for temps, workers with people skills, and especially IT workers. A contact at another employment agency has not seen the normal seasonal slowdown in recent weeks and characterizes the labor market as fairly good, with particularly brisk demand for HR people. While one industry contact describes salaries as “pretty flat”, another reports upward pressure on salaries, as people are more frequently leaving jobs for higher pay. More broadly, service-sector firms continue to add workers at a moderate pace, though more contacts than in the last report say they plan to expand staff in the months ahead. One major retailer expects to hire moderately more

seasonal workers for the holidays than last year. In contrast, manufacturers say they have scaled back both hiring activity and hiring plans.

Financial Developments

Small-to-medium-sized banks in the District report increased demand for commercial mortgages but steady demand for other types of loans and decreased demand for refinancing since the previous report. Bankers report that credit standards were unchanged across all loan categories. Respondents report narrowing spreads on consumer loans and residential mortgages. Banks indicate that average deposit rates remain unchanged. Finally, bankers report ongoing declines in delinquency rates, particularly for commercial loans and mortgages.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period with very few shifts in the growth rates of specific sectors. The most notable change in growth was reported by staffing companies, which experienced further increases in staffing requests for temporary and permanent positions. Overall, service sectors maintained a moderate pace of growth. Nonauto retailers continued to report slight growth, auto dealers continued to report strong growth, and tourism activity continued at a reportedly modest pace. Manufacturers also reported an ongoing modest rate of increase in activity. The commercial and residential real estate sectors continued to report slight overall growth during the current Beige Book period for construction and for leasing of existing commercial properties; contacts reported little change for existing home sales, which continued to be down somewhat on a year-over-year basis.

Lending volumes continued to grow slowly, and credit quality continued to improve, while contacts continued to warn of a slight rise in credit risks because of heated competition for loans. Overall, contacts reported slight increases in wages, home prices, and general price levels that were similar to those reported for the previous Beige Book period. Contacts continued to anticipate moderate growth over the next six months.

Manufacturing. Third District manufacturers have continued to report modest growth overall since the previous Beige Book, but signals were somewhat mixed. A somewhat greater percentage of firms reported increases in new orders and shipments, even as a slightly greater percentage of firms reported decreases (the share reporting no change in activity declined). Gains in activity continued to reflect demand from a broad base of sectors. Except for paper products, all sectors reported overall increases in shipments and orders. Contacts specifically mentioned ongoing demand from the auto and energy sectors. Some firms reported growing demand for home construction products; however, demand remains at a low level. Some producers of construction-related materials worried that if housing starts do not soon rise further, industry shakeouts may result in plant closings to eliminate idle capacity. Other contacts mentioned that demand from defense contracts had stabilized or was growing again from lower levels.

Over half of Third District manufacturing contacts expected business conditions to improve during the next six months. While this is a slightly lower percentage than was reported during the previous Beige Book period, this is the second consecutive period in which no firms anticipated deterioration of business conditions. Moreover, a somewhat larger percentage of firms now expect to increase employment levels over the next six months, to increase their level of capital spending, or to do both.

Retail. Since the prior Beige Book period, Third District contacts have continued to report slight growth in nonauto retail sales. Although, sales growth of back-to-school shopping items was generally described as modest. An operator of area malls reported that cooler fall-like weather has helped move fall apparel inventory, which has allowed many retailers to avoid deeper discounting, thus improving their margins. After a midsummer lull, the restaurant business picked up in August and continued growing into September. Contacts reported very strong restaurant activity in Center City Philadelphia. Overall, contacts are increasingly

optimistic. While hesitant to forecast the upcoming holiday season, one contact suggested that a lot of ongoing new tenant openings may attract more shoppers. Another contact was optimistic about three significant Center City retail openings this fall.

Auto dealers continued to report strong sales growth. A Pennsylvania contact described August as one of the best months ever for auto sales at dealers throughout the state; reported sales for September were also strong but were beginning to show signs of their normal seasonal slowdown. New Jersey contacts also reported strong August sales followed by lower volumes for September, as they approach the model-year changeover and typical year-end selloff in October. Dealers remain very optimistic for continued strong sales levels through 2015.

Finance. Third District financial firms have continued to report slight increases in total loan volume since the previous Beige Book. Volumes increased most for commercial and industrial loans and for some consumer credit lines (though not for credit cards). Reports on demand for home mortgages varied across the region from modest growth to little change; all contacts described low levels of demand for new mortgages, and negligible demand for refinancing loans. Most contacts reported little change in the commercial real estate market. Overall, banking contacts continued to report steady improvement in credit quality; several mentioned that the financials of most small business customers had improved. However, competition remains intense for creditworthy loan prospects. Some contacts also cited risky loan terms that they would not match; one described the market as “frothy.”

Real Estate and Construction. Third District homebuilders have continued to report slight growth in new home construction since the previous Beige Book period. Contacts credited lower gas prices for improving sales traffic and lower interest rates for improving contract signings. Construction activity is expected to continue at modest levels, as builders are starting some homes on spec to boost their inventory of move-in-ready homes before the end of the year. Residential real estate brokers reported little change in sales this period from the prior Beige Book period. On a year-over-year basis, sales have fallen in most major markets. Brokers noted that more deals are falling through now than prior to the recession, and bankers noted that fewer people are qualifying for mortgages. These observations have been borne out by recent monthly reports from Third District multilists that have seen positive year-over-year growth of pending contracts evolve into negative growth of contracts closed one month later. Brokers also reported that the months’ supply of inventory has begun to increase again. Still, brokers remain optimistic for some improvement in 2015.

Overall, nonresidential real estate contacts have reported little change since the previous Beige Book period in the pace of growth of construction and leasing activity, which remains slight. Construction activity continues to be greatest for industrial/warehouse building projects; however, some major office and residential projects have broken ground in Center City Philadelphia, and construction activity will accelerate next spring when the buildings begin to go vertical. An architecture and engineering firm reported that its business continued to exceed its plan, and it will be hiring again. Demand for the firm’s services has been especially strong from energy-related sectors. Contacts also reported improved leasing activity in downtown Philadelphia and suburban Philadelphia, especially for Class A office space. Strong demand continued in Center City Philadelphia for office, residential, and retail space. In the suburban

Philadelphia market, a developer noted that a “flight to quality” from older properties has driven rents higher for Class A office space and prompted ongoing renovations to upgrade older offices into Class A space.

Services. Third District service-sector firms have continued to report moderate growth in activity since the previous Beige Book. Nearly half of all firms reported increases in new orders and sales. Several contacts from banking and health-related manufacturing reported that some health-care providers had reduced personnel and expenses. These cost-cutting measures were attributed to narrower margins due to smaller reimbursements from insurance plans. The cuts occurred even though these providers have been experiencing modest demand increases as a result of previously uninsured individuals gaining access to healthcare. Staffing contacts in eastern and central Pennsylvania reported moderate increases in hiring for temporary and permanent positions. Staffing requests have come from a variety of sectors and for business expansions as well as replacements. Staffing firms remained very upbeat about prospects for this year and next. Once again, over three-fourths of all service-sector contacts reported expectations that growth trends will remain positive over the next six months; none anticipated declines.

Third District tourist areas continued to benefit from great weather conditions as the summer blended into fall. Accordingly, contacts reported modest gains overall. One retail contact reported dramatic sales increases throughout the shore areas, attributing double-digit year-over-year gains to more day-tripping even as occupancy rates of shore rentals continued to rise. (These gains, which were still strong in September, were viewed as resulting from lower gasoline prices as well as from favorable weather.) Several contacts continued to report that rebuilding from Hurricane Sandy was not complete in the hardest-hit areas, where new flood insurance and building standards have slowed reconstruction plans. In the Poconos, contacts reported favorable weather, higher occupancies, and strong bookings for the upcoming fall weekends. Contacts reported that recent casino closings in Atlantic City are expected to have a large effect on the city that should be relatively localized. Reported employment losses in Atlantic City are high; however, many of the lost jobs were part time (and many of these would have ended after the summer tourist season was over). Contacts expect that the remaining casinos may pick up some of the lost business from the recent closures; however, existing staff levels should be sufficient to service any added activity. More broadly, District tourism contacts remain generally positive regarding prospects for the fall.

Prices and Wages. Overall, Third District contacts reported little change to the steady, slight pace of price level increases that is similar to that seen in other recent Beige Book periods. Less than one-third of manufacturing contacts reported an increase in their input costs; just over 10 percent reported charging higher prices for their own products. About one-fifth of service-sector contacts reported an increase in prices paid and received — a somewhat smaller share than in the prior period. Auto dealers reported little change in pricing. Several contacts continued to report tight margins. Generally, contacts reported that hiring remains cautious — occurring when necessary for replacement or for incremental growth; however, staffing firms continued to note some increased hiring for expansion. Staffing contacts also reported a few leading signs of wage pressure: A few job prospects have turned down offers, some companies are making counteroffers to retain employees, and clients are generally less rigid about salary levels.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District expanded at a moderate pace during the past six weeks. Manufacturers reported moderate to strong business activity. Demand for nonresidential construction strengthened, while the residential market slowed. Consumer spending at retail outlets grew, and year-to-date auto sales were above 2013 levels. Since the previous report, coal production and shale gas activity were little changed. Freight volume grew at a moderate to robust rate. The demand for business credit moved higher, and consumer lending was stable.

Payrolls showed a mild increase, primarily in manufacturing, construction, and freight transportation. Staffing firms reported that the number of job openings has picked up, while placements have fallen. Several recruiters reported on a trend to replace permanent, lower-skilled employees with temporary workers. Due to perceived shortages in selected labor skill areas, upward pressure on wages is beginning to be felt by general building contractors and freight haulers. Overall, input and finished goods prices were stable. Prices for energy and agricultural commodities declined, while transportation equipment prices rose.

Manufacturing. Most District factories reported little change in the pace of growth of new orders and production since the previous report and that year-over-year revenues were higher. Firms seeing lower production attributed it to seasonal factors or declining exports. Our contacts remain optimistic and expect moderate to strong demand for the remainder of the year. Steel shipments improved slightly since the last report. Fourth-quarter shipments are expected to increase on a seasonally adjusted basis relative to the third quarter, and a few steel producers project volume in 2014 will be about 5 percent higher compared to 2013. One steel executive noted that his capacity utilization rate has risen to 80 percent, a rise of 10 percentage points since the recession ended. Manufacturers and steel producers reported that the strongest demand came from the construction, motor vehicle, and oil and gas industries. Auto production at District assembly plants for the first eight months of this year was more than 7 percent higher compared to the same period in 2013.

Many of our contacts anticipate that their capital budgets for fiscal year 2015 will be higher than current-year spending. In general, input and finished goods prices were stable since the previous report, apart from declines in agricultural commodities and steel. A food producer remarked that prices for the major commodities that he purchases are at their lowest level in five years and he does not believe food inflation will be a major issue for the next 12 months. We continue to hear numerous reports about new hiring, mainly for production jobs. The boost in hiring has put little upward pressure on manufacturing wages.

Real Estate and Construction. Sales of new and existing single-family homes showed a modest decline in many parts of the District since the last report. Year-to-date sales through August were lower compared to a year ago. Most builders expect that activity will stabilize at current levels, though some expressed concern about the impact of a potential rise in interest rates combined with continued strict lending standards. Multifamily development (market rate, affordable, and senior) was characterized as very strong, with occupancy rates greater than 95 percent. In August, single-family construction starts across the District were at their highest level

so far this year. However, the number of starts year-to-date remains slightly lower compared to the same time period in 2013. New-home contracts were mainly in the move-up price-point categories, though activity in the first-time buyer category continues to slowly improve. Some builders anticipate a modest rise in new-home prices before year's end, which they attribute to rising material and labor costs. The upward trend seen in sale prices of existing homes has leveled off, but the average price remains higher than the average level for 2013 as a whole.

Nonresidential builders reported continued strong pipeline activity since our last report, and a majority indicated that the level of activity has picked up compared to a year ago. A few builders noted that they are more selective about the inquiries that they respond to because they are at or near capacity. One builder commented that because his customers are not expecting prices for nonresidential construction to rise much, there is no sense of urgency to push forward with some projects. In general, backlogs were described as good or solid. Market demand is broad based, though demand for industrial space (manufacturing and distribution) and healthcare facilities is strongest. There has also been a pickup in requests for retail and office space. Leasing of vacant industrial space has increased. Most builders remain optimistic, but they are concerned about labor availability, tight margins, and capacity constraints, should a demand spike occur.

General contractors are not overly concerned with rising prices for building materials; the largest price increases are anticipated for steel components, drywall, and wood products. The pace of hiring has slowed since our last report, with some of the decline in hiring activity being seasonal. Nonetheless, a majority of general contractors reported that they expect to increase their payrolls across a broad range of occupations—craft workers, laborers, management, and back office. Little wage pressure was reported, except for craft workers. Subcontractors are pushing through rate increases to cover rising costs (including labor) and to widen their margins. Subcontractors are still encountering capacity and cash-flow issues. As a result, some general contractors are turning to prefabrication to circumvent subcontractors.

Consumer Spending. Spending at retail outlets during August and into early September was generally higher compared to earlier in the third quarter. Many retailers cited an extended back-to-school buying period as a contributing factor to the increase. Revenues were higher relative to the same time period in 2013 for most retailers, which they attributed to a stronger product mix and growing investment in e-commerce. In addition to back-to-school items, sales of home furnishings, athletic footwear, and food products were doing well. Fourth-quarter revenues are projected to be higher, with expected year-over-year percent gains in the low single digits. Vendor and shelf prices held steady. Several retailers noted that they are running more promotions than usual, mainly to clear inventory and boost revenues. Excluding new store openings and temporary seasonal hiring, retail payrolls were stable.

New motor vehicle sales showed a moderate decline in August on a month-over-month basis and were down slightly from a year ago. However, year-to-date sales through August were 5 percent higher compared to the same time period in 2013. Strong sales of SUVs and trucks continued. Inventory reports were mixed, which is attributable to the model-year changeover. Dealers believe that the level of sales will follow seasonal trends for the remainder of the year

and that unit volume for 2014 as a whole will be about 6 percent higher compared to 2013. Used-car purchases showed a modest decline in August on a month-over-month basis, while year-to-date unit volume was slightly higher. We heard several reports about automakers becoming increasingly dependent on the use of incentives to boost sales. Demand for service technicians is growing, but dealers are having difficulty finding qualified applicants.

Banking. Bankers reported that demand for business credit was stable to showing moderate growth during the past six weeks. While demand was described as broad based, it was strongest for commercial real estate and construction loans and C&I lending to manufacturers. Interest rates held steady. On net, consumer credit demand was roughly stable. The number of applications for auto loans remains very high, while households are making marginally greater use of home equity lines of credit. Residential mortgage activity was flat to down slightly; some of the decline is seasonal. Purchase transactions dominate mortgage applications. Delinquency rates are stable to improving across categories. No changes were made to loan-application standards during the past six weeks. However, to gain a competitive advantage, there has been some slight relaxing of terms and conditions. Banks saw growth in core deposits from businesses and consumers. On balance, banking payrolls held steady. New hires were mainly in the areas of compliance, risk management, and commercial lending; however, in response to reduced traffic at branches, payrolls there are being reduced.

Energy. Year-to-date coal production across the District is consistent with prior-year levels, with no material change in output anticipated in the near term. A production decline in eastern Kentucky is being offset by a significant increase in northern West Virginia. Spot prices for thermal and metallurgical coal remain on a downward trend. Activity in the Marcellus and Utica Shales remains at a high level. During the first half of 2014, production in Ohio's Utica Shale was more than six times greater relative to the same time period in 2013, while the number of producing wells increased by 61 percent. Wellhead prices for natural gas and oil have declined since late in the second quarter. Since the last report, equipment and materials prices were largely unchanged and energy payrolls held steady.

Freight Transportation. Freight volume expanded since the last report, with contacts describing year-over-year growth as moderate to robust. Although demand is fairly broad based, it is strongest from the agriculture, motor vehicle, and oil and gas industries. The near-term outlook is favorable. Contacts from trucking and railroads observed that insufficient capacity is a major issue that is currently confronting the industry and that there is concern about stress on the freight-transport system from this year's grain harvest, which is expected to be at a historic high. We heard a report about rail carriers being reluctant to contract for shipments of less than five carloads, which is hurting small manufacturers. The cost of new equipment (truck tractors and rail cars) is rising, and in some cases delivery times are lengthening. Some of the higher cost was attributed to meeting regulatory requirements. Hiring is both for replacement and for adding capacity. Projected capital spending in fiscal year 2015 is mainly for equipment replacement. Although most fleets would like to add capacity, they are having difficulty finding drivers.

FIFTH DISTRICT–RICHMOND

Overview. District economic conditions improved modestly since the previous report. Manufacturing advanced as shipments and new orders grew modestly, and inventories of finished goods and raw materials rose at a faster pace. Retail sales rose on pace with our last report, and the non-retail service sector expanded moderately. Tourism remained robust, and executives anticipate a strong holiday season. Business lending was unchanged on balance, and competition among bankers remained intense. Residential real estate activity increased in recent weeks, albeit at a somewhat slower pace, and reports on housing inventory were mixed. In agriculture, crop harvesting was on schedule, with price declines for some crops. In the energy sector, coal production and prices declined. More natural gas wells were brought online. On balance, District labor market reports indicated greater demand for workers. According to our latest surveys, manufacturing employment grew modestly and average wages rose slightly. Service-sector employment and wages increased at a moderate pace.

Manufacturing. Manufacturing activity increased in recent weeks, and expectations for the months ahead remained positive. Shipments and new orders grew modestly, and inventories of finished goods and raw materials rose at a faster pace relative to the previous report. A medical equipment manufacturer in North Carolina reported continued robust growth in new orders during the past six weeks and noted optimistic customer expectations for the months ahead. Additionally, a North Carolina electrical equipment manufacturer indicated that orders were up, and that his firm's increased capital spending had improved its shipment capability. A source said that in West Virginia, large manufacturing firms were hiring and investing, but that smaller manufacturers were not making capital investments. A Virginia food manufacturer reported that order volume was flat during the past month, but that he expected improvement during the holidays. However, an executive at a North Carolina textile manufacturer stated that revenues had slowed and retailers were holding back on new orders. Prices of raw materials and finished goods rose at a slightly faster pace since the last report.

Ports. District port officials reported that activity remained strong, suggesting that the peak import season, which had begun earlier than usual, was extended rather than just shifted forward. Loaded container traffic rose further for the major ports, primarily for imports; for other traffic as well, imports continued to outpace exports. Some of the softness in exports was attributed to rail and trucking issues, such as slowdowns from bottlenecks in rail service and truck driver shortages, which have delayed movement of inland cargo to the ports. Port contacts reported strong exports of autos, as well as of containerized grain and soybeans. Imports were led by commodities related to housing and retail, such as appliances, flooring, apparel, and footwear. According to one official, shipping lines have been consolidating and upgrading to larger ships.

Retail. Retail sales rose on pace with our last report. Big-ticket sales grew solidly, but somewhat more slowly relative to the previous report. Sales picked up for suppliers of retail and wholesale building materials. Wholesalers of heavy equipment also reported stronger sales. A car dealer near Washington, D.C. said he expects this year's sales to be about the same as the record sales of a year ago, with dealer incentives helping to move current-year models. According to a central Virginia retail representative, current strong sales of furniture, appliances, and electronics may signal that consumers have more cash, but early big-ticket sales may leave less for discretionary spending during the later weeks of the holiday season. In contrast, the manager at a discount store in the Hampton Roads area of Virginia said that there was almost no change in sales revenues during the past six weeks, but customers were already making holiday purchases using the store's lay-away program. A grocery store manager in southwestern Virginia commented that diminishing incomes for coal mining families, together with rising meat prices, have resulted in lower sales per purchase. Retail price increases slowed since the previous report.

Services. Firms in the non-retail service sector reported moderate growth in recent weeks. Technology firms, engineering companies, and a few smaller healthcare facilities reported stronger revenue growth. According to a North Carolina hospital source, it has been a good year for revenues, and that the hospital was able to make small price increases. In contrast, an executive at a large healthcare system said that cost reductions, including hiring restrictions, were continuing and that their projections were for reduced inpatient volumes. While executives at a couple of accounting firms in North Carolina reported a pick-up in business, a CPA at a Maryland accounting firm saw little change in requests for proposals. According to our most recent survey, non-retail price growth increased slightly.

The summer tourism season finished on a high note, meeting resort managers' expectations. Moreover, hoteliers in Baltimore and western North Carolina said that conventions and autumn leaf viewing were expected to support strong bookings throughout October. A source on North Carolina's Outer Banks reported a number of scheduled autumn events to draw tourists for several more weeks. In addition, many rentals were already booked for Thanksgiving, Christmas, and New Year's. Few rate changes were reported.

Finance. Reports on lending activity were mixed in recent weeks. Residential mortgage demand declined in West Virginia and southeastern Virginia but rose slightly in Maryland, North Carolina, and South Carolina. Refinance loan demand was mostly unchanged except in West Virginia and South Carolina, where demand declined. Business lending was unchanged on balance. A contact in Maryland remarked that small businesses were having difficulty getting credit while larger businesses had no problems. The level of lending in commercial and industrial real estate, which had been trending up, has flattened in the Carolinas and West Virginia. Bankers in several locations characterized competition as "fierce." A lender from South Carolina reported some easing of standards; however, a contact from

Maryland cited a tightening of underwriting standards. There were no reports of changes to credit quality. Lastly, slight upward pressure on loan interest rates was reported in West Virginia.

Real Estate. District housing market activity grew at a somewhat slower pace since the previous report. Most brokers indicated that buyer traffic was steady, on a seasonally adjusted basis. Most Realtors reported a slight increase in home prices, although one South Carolina broker reported a small decrease in both single-family and condominium sale prices. A contact in the Hampton Roads region of Virginia stated that the number of condominium sales was only slightly higher; apartment rental activity remained steady. Inventory reports were mixed. Realtors in South Carolina, North Carolina, and Virginia saw seasonal declines in inventories, while District of Columbia and northern Virginia brokers reported steady or rising inventories. Days on the market varied by location. Average market times decreased for Realtors in Richmond, Charlotte, and Myrtle Beach, but contacts in the nation's capital and Greensboro reported no change; a northern Virginia Realtor noted a slight increase. Construction across the District increased slightly for custom homes. A South Carolina Realtor saw no new multifamily construction and a Virginia Beach broker stated that multifamily growth is slowing down because of overbuilding. In contrast, an agent in Asheville stated that multifamily construction has "ramped up."

Commercial real estate activity improved modestly over the past several weeks. A broker in Charlotte reported a gradual improvement in sales and leasing, with a moderately strong office market and modest activity in industrial and retail real estate. The office market in the Hampton Roads area of Virginia was mixed. A South Carolina source reported robust leasing in both office and retail, with a slower industrial market since the last report. Retail vacancy rates were lower in Baltimore and Virginia Beach, and unchanged in Charlotte and Richmond. Office vacancy rates varied across the District. A Charlotte broker reported increased industrial construction, along with a few speculative office projects. Multiple contacts noted rising commercial sales prices. Rental rates varied across regions and submarkets.

Agriculture and Natural Resources. Corn prices declined further over the past six weeks. Soybean prices also fell, while cotton prices were unchanged. A West Virginia farmer stated that grain prices declined after seven years of above-average prices. Farmers' input prices were unchanged in South Carolina and Virginia. A grower in South Carolina reported completion of corn harvesting and the start of peanut harvesting since the previous report. In West Virginia a farmer said that crop planting, reseeding, and harvesting were on schedule, and that his compost business had increased in the past six weeks.

Since the previous report, coal production and prices decreased in southern West Virginia and rose in the northern part of the state, according to a source. Natural gas production increased moderately; more West Virginia wells were brought online, and natural gas prices decreased slightly.

Labor Markets. On balance, demand for workers increased since the previous report. A textile and chemical manufacturer from Virginia reported new hiring, while a food producer transitioned several temporary employees into full-time positions. New hiring in tourism, manufacturing, and IT was noted in

West Virginia; however, there were reports that WARN Act notices, indicating a planned mass layoff, had been issued in the coal industry. A central Virginia staffing agent noticed significantly stronger demand in recent weeks, especially for customer service, healthcare, and legal workers. A Maryland employment service provider said there were no notable changes in hiring, but suggested that the skills most in demand were for managers, supervisors, engineers, and IT professionals. Some transportation, banking and finance, hospitality, and retail industries continued to have difficulty finding workers. A few contacts reported wage pressures for drivers, construction workers, skilled engineers, managers, IT professionals, and bankers. According to our most recent surveys, manufacturing employment grew at a modest pace, the average workweek lengthened, and wages rose slightly; in the service sector, employment and wages increased at a moderate pace.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts described economic conditions as improving at a modest pace in September. The outlook among firms remains largely optimistic with the majority of contacts expecting near-term growth to be sustained at or slightly above current levels.

Retailers cited a slight improvement in sales activity since the previous report. Auto dealers continued to note increasing sales. Hospitality contacts continued to report strong activity, with increasing demand from both leisure and business travel. Residential real estate contacts indicated that existing and new home sales and prices remained ahead of last year's levels, and inventory levels were down from a year ago. Commercial real estate brokers continued to note improved demand and modest levels of construction for most property types. Multifamily construction, in particular, continued to increase across much of the District. Manufacturers indicated that overall activity expanded with new orders and production increasing since the previous report. Banking conditions improved for both businesses and consumers as loan volume increased slightly, on balance. Payrolls across the region expanded slowly and businesses continued to report difficulties finding qualified workers. Contacts indicated wages grew at a steady pace. Some contacts expressed concerns about the rising costs of specific inputs.

Consumer Spending and Tourism. District retailers reported a slight improvement in sales since the previous report. Young shoppers were described as being confident and willing to spend, while older consumers were reportedly being more cautious. The battle between online sales versus brick-and-mortar store sales continued as merchants indicated that competition from rival stores' online sales was having an adverse effect on in-store traffic. However, the outlook among retailers for the remainder of the year remains optimistic. District auto dealers not only continued to see increased consumer sales, but saw strong demand from commercial businesses as well.

Reports on tourism and business travel remained upbeat. Tourism activity across the region was strong with high occupancy numbers at hotels and resorts. The development of various new entertainment venues has increased demand for leisure travel and business travel has been solid year to date. Overall, hospitality contacts maintain a positive outlook for the remainder of 2014 and the beginning of 2015.

Real Estate and Construction. Many District brokers reported growth in activity since the previous report. Most brokers indicated that home sales met or exceeded their plan for the

reporting period, but a growing share of contacts reported that sales fell short of their plan. The majority of brokers indicated that inventory levels remained flat or continued to decline on a year-over-year basis and home prices were ahead of their year-earlier level. Regarding the outlook, optimism about future sales activity waned from earlier reports with most brokers expecting home sales to remain flat or decline slightly over the next three months with some of the expected decline being attributed to seasonal factors.

Reports from District builders remained fairly positive. The majority reported that recent construction activity either met or exceeded their plan for the period. Many builders noted that construction activity and new home sales were ahead of their year-ago levels. Half of contacted builders indicated that their inventory of unsold homes was down from a year ago. Builders also continued to report modest home price appreciation. The outlook among builders for new home sales and construction activity remains positive.

Commercial real estate brokers across the District continued to report improving demand since the previous report, though they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Commercial contractors reported that apartment construction remained robust. Contacts also noted that the level of construction activity across other property types continued to increase modestly. The outlook among District commercial real estate contacts remains fairly optimistic.

Manufacturing and Transportation. District manufacturers reported that activity expanded compared with the previous reporting period. Contacts noted growth in new orders and production; in addition, they indicated that finished inventory levels rose and commodity prices continued to increase. Respondents noted that supplier delivery times for inputs were slightly shorter. Relative to the previous report, a larger share of purchasing agents polled during the reporting period expect production to increase over the next three to six months.

Overall, transportation contacts reported an improvement in demand since the previous report. District railroads cited increases in total carloads, led by significant strengthening in shipments of petroleum products; grain; and military, machinery, and transportation equipment. Intermodal traffic continued to increase on a year-over-year basis. Ports in the District reported a notable increase in container traffic and substantial growth in overall cargo tonnage in September. Trucking companies continued to experience strong freight demand through the end of September.

Banking and Finance. Contacts described the financing environment as improving for both businesses and consumers, with a growing number of projects being financed. Competition

for high-quality borrowers remained very keen and credit demand was mixed. Line-of-credit utilization at banks remained relatively flat with few requests for increased limits on short-term credit. Demand for some other loan types was up from year-ago levels.

Employment and Prices. With a few exceptions, contacts reported that their staffing levels were increasing slowly. The District added 51,100 jobs on net in August and the unemployment rate rose 0.2 percentage point to 6.9 percent. Nearly all states in the District added to payrolls in August, with the exception of Mississippi, which lost 4,600 jobs on net. Businesses across the region continued to report difficulty finding qualified workers. Similar to the previous report, hiring challenges appeared to be both intensifying and broadening across the skill and occupation spectrums.

In general, firms indicated that their pricing power remained relatively weak, although a growing number of contacts expect improved margins over the coming year. Contacts in some sectors, including transportation and construction, continued to report concerns about rising input costs, though a slower pace of commodity price increases is anticipated to offer some respite going forward. Respondents to the latest business inflation expectations survey indicated that, on average, businesses anticipate unit costs to rise 2.1 percent over the coming 12 months. There were some reports of upward pressure on starting salaries; however, average compensation increases for most contacts remained anchored between two and three percent per year.

Natural Resources and Agriculture. Contacts in the oil industry reported that there was an excess supply of crude oil, with recent prices well below year-ago levels. Gulf Coast refinery utilization increased over the last year. Imports of crude oil fell; exports were slightly above year-ago levels, though some contacts expressed concern that the strength of the dollar has made U.S. oil exports more expensive for the rest of the world.

Parts of Alabama, Florida, and Georgia experienced abnormally dry to severe drought conditions. Lower corn prices continued to benefit poultry and livestock producers that rely on corn for feed. The USDA announced a new financial assistance program for eligible Florida citrus growers to help with the removal and replacement of stock affected by citrus greening.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District remained moderate in September, and contacts maintained their optimistic outlook for the rest of the year. Consumer and business spending, manufacturing production, and construction and real estate activity all increased moderately. Credit conditions and cost pressures changed little on balance. Corn and soybean prices fell as a big harvest got underway, but milk, hog, and cattle prices increased.

Consumer spending. Growth in consumer spending remained moderate in September, led by continued strength in auto sales. Lower gas prices spurred sales of larger vehicles, especially light trucks, and consumers continued to take advantage of low lending rates and easing loan standards. Several auto dealers also noted that leasing activity had finally returned to pre-recession levels. Non-auto retail spending increased slightly, as growth picked up for discretionary spending categories in recent weeks. Retail contacts generally expected that sales in the upcoming holiday season would be up slightly relative to a year ago.

Business spending. Business spending also continued to grow at a moderate pace in September. Inventories remained at comfortable levels for most retailers and manufacturers. Non-auto retailers reported adding more to their holiday season inventories than they did last year. Capital expenditures and capital spending plans steadily increased, with expenditures primarily going toward replacing IT and industrial equipment. A number of manufacturing contacts, especially auto suppliers, reported that demand was strong enough to justify expansion in the near future. Both actual hiring and hiring plans increased at a moderate pace, and many contacts reported slightly higher turnover. Many manufacturing contacts added hours to meet increased demand. Holiday hiring began, and retailers plan to hire slightly more holiday workers than last year. Demand remained strong for skilled workers, particularly for those in professional and technical occupations and skilled manufacturing and building trades. Contacts again mentioned expanding internal training programs to address worker shortages and an increased willingness to pay higher wages. A staffing firm reported strong order books, but noted that improving labor market conditions in the District were leading to increased difficulties finding qualified workers.

Construction and real estate. Construction and real estate activity also increased moderately over the reporting period. Residential construction continued to expand in both the single- and multi-family markets. An industry contact noted that with homebuilders beginning to exhaust their existing inventories of vacant in-fill lots, single-family construction might slow in

some areas of the District until planned projects start to come online. Builders also noted improved availability of financing for new projects, but indicated that difficulties in finding skilled labor have often delayed construction. Home sales were somewhat lower, and growth in home prices and residential rents slowed. Real estate contacts expected sales to return to normal levels in the coming months, pointing to recent increases in online and open-house traffic. Nonresidential construction increased, driven in large part by demand for industrial and office buildings. Automotive parts manufacturers, in particular, remained a source of demand for industrial buildings. Commercial real estate activity continued to expand, with contacts noting strong demand for medical office buildings. Vacancies ticked down, rents rose, and leasing of industrial buildings, office space, and retail space all increased.

Manufacturing. Manufacturing continued to grow at a moderate pace in September. The auto, aerospace, and energy industries remained a source of strength for the District. Light vehicle production increased as manufacturers built up inventories in anticipation of continued growth in sales. Demand for steel steadily increased and most specialty metal manufacturers' order books continued to fill. Led by the U.S. market, demand for heavy machinery picked up some on net, as higher demand for construction machinery overshadowed weaker demand for agricultural and mining equipment. Slowing demand has led some agricultural machinery manufacturers to start offering incentives such as extended warranties, low interest rate loans, and special financing to help dealers sell used equipment. Manufacturers of construction materials reported a modest increase in demand, but still were disappointed in the slow pace of improvement in the housing market. Utility contacts reported that weather-adjusted load growth was flat over the reporting period.

Banking/finance. Credit conditions were mixed in September. Financial market participants noted slightly tighter financial conditions, pointing to an increase in equity market volatility and widening corporate bond spreads. In contrast, banking contacts cited looser conditions, with business and consumer lending both increasing. Business loan demand for equipment and commercial real estate financing rose, as did utilization of credit lines for working capital. Banking contacts also noted that despite elevated acquisition multiples, their clients continue to seek opportunities for mergers and acquisitions; this was especially the case for large corporations with ample cash balances. Consumer loan demand increased, with contacts citing some additional growth in credit card lending, continued strong growth in auto lending, and an uptick in mortgage lending.

VII-3

Prices/costs. Cost pressures changed little on balance over the reporting period. Energy costs declined. Steel and aluminum prices increased. A contact noted that supply constraints in the Midwest pushed up the local price for aluminum to a new high relative to benchmark spot prices. A number of manufacturers expected to be able to raise prices, especially those in the auto industry, where capacity is increasingly constrained. Retail prices were down slightly as contacts reported more generous sales promotions. Meat and dairy prices remained elevated, though contacts did not report price pressures for other grocery items. Overall, wage pressures were modest, but a number of contacts again reported moderate wage pressures for skilled workers. Non-wage labor costs changed little from the previous reporting period. Many contacts reported passing some of their higher health care costs on to employees in the form of higher co-pays or deductibles.

Agriculture. Overall crop conditions were very good at the start of the harvest. The District should see record corn and soybean harvests. Early results indicated yields for corn and soybeans would range from above-average to record-high levels. The huge anticipated harvests pushed down corn and soybean prices. Crop income was lower than a year ago as higher yields were insufficient to offset lower prices. Crop insurance will cover some of the lost income, but farmers already are planning to trim costs for next year, particularly spending on farm equipment and other capital purchases. Corn farmers helped bid up cattle prices, with the intention of using the abundant harvest as feed for their own cattle production rather than selling it. Hog and milk prices were higher as well, contributing to expansions in output of these commodities.

VIII-1

Eighth District - St. Louis

Summary

Economic activity in the Eighth District has increased at a moderate pace since the previous report. Recent reports of planned activity in manufacturing and services have been largely positive. Reports from retail contacts have also been positive. Overall residential real estate market conditions have remained weak. Commercial and industrial real estate market conditions have been mixed, but commercial and industrial construction has increased. Lending activity at a sample of small and midsized District banks increased from mid-June to mid-September.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been largely positive since the previous report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the Eighth District, while a smaller number of contacts reported plans to reduce employment. Producers of construction materials, tools, consumer goods, and aviation equipment announced plans to hire new employees and expand operations in the Eighth District. In contrast, a metal products manufacturer and a food manufacturer reported plans to lay off workers and close facilities. Reports from automobile and auto parts manufacturers were positive, with District contacts reporting plans to expand operations and hire new workers.

Reports of plans in the District's service sector have also been positive since the previous report. Firms in freight, insurance and financial, and communications services reported new hiring and expansion plans in the District. In contrast, firms in animal health services and firms in news media services announced plans to lay off employees. Reports from healthcare services firms were mixed. Anecdotal reports from retailers were mostly positive. Contacts in Memphis

noted new openings or expanding operations in retail and grocery establishments. In contrast, a major nationwide retailer announced two store closures in the District.

Real Estate and Construction

Home sales decreased in the Eighth District on a year-over-year basis. Compared with the same period in 2013, August 2014 year-to-date home sales were down 3 percent in Little Rock, 2 percent in Louisville, 8 percent in Memphis, and 5 percent in St. Louis. Residential construction declined in the majority of the District's metro areas. August 2014 year-to-date single-family housing permits decreased in the majority of the District's metro areas compared with the same period in 2013. In particular, permits decreased 29 percent in Little Rock, 8 percent in Louisville, and 3 percent in St. Louis. In contrast, permits increased 2 percent in Memphis.

Commercial and industrial real estate market conditions were mixed throughout the District. A contact in Louisville reported an increase in prospective commercial tenants in the downtown area. A contact in Memphis noted that the Germantown commercial real estate market remains strong. A contact in Little Rock reported robust demand for commercial real estate space. Commercial and industrial construction activity improved throughout most of the District since the previous report. A contact in Memphis reported plans for a large-scale mixed-use development in the downtown area. A contact in Louisville reported the construction of a building in an industrial park in southern Indiana, with tentative plans for the construction of additional buildings. A Little Rock contact reported the redevelopment of vacant commercial real estate space in Fayetteville. Contacts in St. Louis reported the expansion of a commercial real estate development in Chesterfield and multiple plans for speculative industrial development projects across the area.

Banking and Finance

Total loans outstanding at a sample of small and midsized District banks increased 1.9 percent from mid-June to mid-September. Real estate lending, which accounts for 72 percent of total loans, increased 1.1 percent over this period. Commercial and industrial loans, which account for 16 percent of total loans, increased 2.0 percent over the period. Loans to individuals, which account for 5.3 percent of total loans, increased 4.6 percent over the period. All other loans, which account for 7.2 percent of total loans, increased 7.7 percent over the period. During this period, total deposits at these banks decreased 0.2 percent.

Agriculture and Natural Resources

As of late September, about 75 percent of the District's corn, rice, and soybean crops was rated in good or excellent condition. Similarly, about 60 percent of the District's pastureland was rated in good or excellent condition; Kentucky's pastureland, in particular, has improved significantly since the previous report. Harvest completion rates across the District have lagged behind their five-year averages. District coal production for August was about 1.5 percent higher than a year ago.

Employment, Wages, and Prices

Anecdotal information suggests that employment in the Eighth District grew moderately since the previous report, while wages and prices grew modestly. A contact in Louisville noted increased turnover of skilled employees who are switching to higher-paying jobs. Contacts also noted increases in the cost of lumber and other building materials, and indicated that increased demand has allowed some retail dealers of construction materials to increase prices to consumers.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a moderate pace since the previous report. Increased activity was noted in consumer spending, tourism, commercial real estate, professional services, manufacturing, and energy. Agricultural conditions were mixed and mining was flat, while construction and residential real estate activity decreased. Labor markets continued to show signs of tightening. Overall wage increases were modest, while price increases generally remained subdued.

Consumer Spending and Tourism

Consumer spending increased moderately overall since the previous report. August and early-September same-store sales at a mall in North Dakota were up about 2 percent compared with the same period a year earlier. Recent sales and traffic at a South Dakota mall were relatively flat compared with last year, while August sales were flat relative to a year ago at a Minnesota mall. An apparel retailer noted that recent sales were up slightly from a year earlier. Recent vehicle sales at Montana dealerships were doing well with particularly strong sales in the northeastern part of the state, according to a representative of an auto dealers association.

Tourism activity was up from last year. This year's record attendance at the Minnesota State Fair was 5 percent higher than a year ago. A travel agency in Minnesota noted that recent leisure travel bookings were about 10 percent higher than last year, while another travel agency reported that leisure bookings in August and September were strong. Compared with last year, August visits to Glacier National Park were up 8 percent and visits to Yellowstone National Park were up 7 percent. According to a survey of lodging and camping properties in Minnesota, 48 percent of respondents reported that summer occupancy was up from a year ago, while 25 percent reported that it was down.

Construction and Real Estate

Commercial construction activity decreased since the previous report. Commercial permits in Billings, Mont., were down significantly in value in September from a year earlier. In Sioux Falls, S.D., the value of August commercial permits decreased from a year ago. Residential construction decreased from last year. In the Minneapolis-St. Paul area, the value of September residential permits decreased 16 percent compared with September 2013. The value of August residential permits in Sioux Falls decreased 40 percent from the same period last year. The value of August housing permits decreased significantly in Bismarck from a

year ago. However, September residential building permits in Billings increased in value from last year.

Activity in commercial real estate markets increased since the previous report. Several commercial real estate transactions were announced around the District, including both purchase and lease transactions in retail, hotel, office, and industrial real estate. However, a retailer announced that it would vacate three of its stores in Minnesota this year. Residential real estate market activity decreased since the previous report. In the Sioux Falls area, August home sales were down 8 percent, inventory increased 11 percent, and the median sales price increased 5 percent relative to a year earlier. August home sales were down 5 percent from the same period a year ago in Minnesota; the inventory of homes for sale increased 13 percent, and the median sales price rose 4 percent. Several Minnesota real estate professionals and investors recently noted that out-of-state investor groups are paying above-market prices for single-family rental properties in Minneapolis. Meanwhile, August home sales in western Wisconsin were up 8 percent from a year ago; the median sales price was flat.

Services

Activity at professional business services firms increased at a modest pace since the previous report. Contacts from architectural firms noted some increases from a year ago in bidding activity for government and industrial projects. Contacts from accounting and legal firms noted steady activity since the previous report. Several contacts noted that capacity constraints in freight rail have increased demand for trucking services.

Manufacturing

Manufacturing activity grew moderately since the previous report. A manufacturing index released by Creighton University (Omaha, Neb.) increased in September from the previous month in North Dakota; the index fell slightly in Minnesota and South Dakota, but remained at levels consistent with expansion in activity in all three states. An agribusiness firm announced that it will move ahead in building a \$3 billion fertilizer plant in North Dakota.

Energy and Mining

Activity in the energy sector increased, while mining was steady since the previous report. Late-September oil and gas exploration activity increased in North Dakota and was level in Montana from a month earlier; production remained at record levels. A partnership announced plans to build a 450-mile pipeline from the Bakken oil fields to a hub in Wyoming. A crude oil storage facility in North Dakota announced a \$5.5 million expansion. Production at District

iron ore mines appeared steady in August compared with a month earlier. It was announced that construction will resume on a \$1.8 billion ore production facility that was delayed due to financing. Freight rail congestion was leading to increased stockpiles at some ore production facilities, as locomotives and crews that move ore to port were in short supply.

Agriculture

Agricultural conditions were mixed since the previous report. The most recent USDA forecast calls for substantially increased production of corn and soybeans this year in District states compared with 2013. Livestock and dairy producers continued to benefit from lower feed costs and high output prices. Most of the district's crops were in good or excellent condition despite late planting; however, an early frost damaged soybeans in some parts of Minnesota and South Dakota. Relative to a year earlier, prices received by farmers in September were lower for corn, soybeans, and wheat; prices increased for hay, cattle, hogs, poultry, and milk.

Employment, Wages, and Prices

Labor markets continued to show signs of tightening since the previous report. In Minnesota, a firm is hiring 1,000 seasonal workers to fill a variety of positions, a medical device manufacturer announced plans to add over 200 jobs, a window manufacturer will add 100 jobs, and a heating and air conditioning plant announced plans to add 95 jobs over the next three years. According to a survey of Minnesota businesses by an employment services firm, 19 percent of respondents expect to hire more employees during the fourth quarter, while 6 percent expect decreases in staffing. In last year's survey, 17 percent expected staffing increases, while 7 percent expected decreases. According to surveys conducted by four technical schools in South Dakota, almost all graduates were employed or continuing their education six months after graduation. Some contacts noted continued difficulty finding truck drivers to fill open positions. In contrast, a food manufacturer recently announced plans to eliminate up to 800 positions companywide.

Overall, wage increases were modest since the previous report. However, according to a recent survey of central Minnesota businesses by St. Cloud State University, 54 percent of respondents expect to increase compensation over the next six months, up from 43 percent in last year's survey.

Price increases generally remained subdued. End-of-September Minnesota gasoline prices were down about 10 cents per gallon both from mid-August and from a year earlier. Metals prices decreased somewhat since the previous report.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy grew modestly in late August and September, and most contacts were optimistic about future activity. Consumer spending was up moderately despite some sluggishness at restaurants and hotels, and expectations for future sales were mostly positive. District manufacturing activity grew modestly, and wholesale trade firms reported improved sales. District real estate activity increased slightly, and activity in the energy sector continued to expand. Transportation, professional, and high-tech firms reported slower growth relative to the previous survey. Bankers reported steady loan demand, better loan quality, and stable deposits. In agriculture, crop conditions remained solid in the District, but lower crop prices weighed on the outlook for farm incomes. Prices grew more slowly in most industries, while some firms reported increased wage pressures as well as labor shortages for specific positions.

Consumer Spending. Consumer spending grew at a solid rate, and contacts were more optimistic about future sales growth than in previous reports. Retail sales grew moderately, at a similar pace of growth as in the previous survey. Several retailers noted stronger sales of home improvement and building materials, though sales for some higher-priced items were characterized as weak. Expectations for future sales remained strong, and inventory levels were expected to rise somewhat. Auto sales were up modestly from the previous survey. Dealer contacts anticipated some increases in sales in the months ahead and noted solid sales for mid-sized vehicles and small SUVs. Auto inventories fell further, with one contact noting a considerable rise in the cost of inventory. Restaurant sales weakened in late August and September but remained well above year-ago levels, and contacts expected sales to improve in coming months. Many restaurants reported a reduction in employment, and one restaurant owner said they would be adding a health care surcharge of 3 percent to each check. District tourism activity fell from the previous month, but was up strongly from a year ago. Expectations for future tourism edged down somewhat but remained solid.

Manufacturing and Other Business Activity. District manufacturing and other business activity rose modestly in late August and September. Factory production increased, primarily at durable goods producers, though several nondurable-goods producers also reported modest gains. However, activity at some food processing plants continued to decline in the face of higher beef

prices. Contacts reported solid gains in factory shipments and employment, with new orders up slightly. Expectations for future factory activity held steady at overall favorable levels.

Manufacturers' capital spending plans increased slightly and remained well above year-ago levels. Growth in wholesale trade sales increased, with contacts expecting continued solid growth in the next few months. Transportation, professional, and high-tech firms reported smaller gains than the previous survey, although sales remained considerably higher than year-ago levels and many contacts expected solid improvement heading forward. One trucking firm cited supply chain disruptions and new regulations as having slowed freight traffic for both shippers and distributors.

Real Estate and Construction. On balance, District real estate activity increased slightly in late August and September with residential real estate activity flat and commercial real estate activity increasing moderately. Residential home sales were unchanged compared to the previous survey period and were similar to year-ago levels. Sales of low- and medium-priced homes continued to run ahead of sales for higher-priced homes. Home prices increased modestly, and inventories continued to rise slightly. Most residential real estate contacts expected home sales to decrease in the coming months primarily reflecting typical seasonal declines. Housing starts and construction supply sales edged down since the previous survey period. Residential construction activity was expected to pick up slightly as builders anticipated a slight increase in traffic of potential buyers. Commercial real estate activity increased moderately relative to the previous survey period as contacts continued to report a decline in vacancy rates, an increase in absorption, higher sales, and increased construction activity. The commercial real estate market was expected to strengthen at a moderate pace over the coming months.

Banking. Bankers reported steady overall loan demand, a modest improvement in loan quality, and mostly steady deposit levels in late August and September. Loan demand was slightly improved for agricultural loans, consumer installment loans and commercial and industrial loans. Demand for residential real estate loans was slightly weaker compared to the last survey. Even with the recent modest improvement in loan quality, most bankers indicated loan quality was unchanged compared to a year ago, and many expected it to remain the same over the next six months. Credit standards remained largely unchanged for all major loan categories, and deposit levels were stable for most banks.

Energy. Energy activity continued to expand in late August and September. District contacts reported steady growth in drilling activity, primarily for oil, and expectations for future drilling were solid, though somewhat lower than the previous survey. Oil prices declined in late August and September, as global demand failed to keep up with supply. Most respondents expected oil prices to decline marginally in the coming months, yet most producers anticipated that drilling would remain profitable across the areas where they are active. Natural gas prices continued to decline but remained slightly above year-ago levels; most contacts expected these prices to start to rise modestly as the winter heating season approaches. Energy firms' overall capital expenditure plans remained solid.

Agriculture. Despite expectations of above-average yields, further declines in crop prices weighed on farm income prospects in the District. However, crop insurance and some pre-selling of this year's crop at higher prices earlier in the year may help mitigate the effect on overall farm incomes of recent spot price declines. The corn and soybean crops were mostly rated in good to excellent condition as harvest began. Cattle prices rose since the last survey period while hog prices fell with increased production resulting from higher dressed weights. The demand for farm operating loans has risen substantially from last year as more crop producers borrowed to pay for operating costs. Bankers also reported a rise in requests for agricultural loan renewals and extensions and noted that loan repayment rates have edged down from the high levels seen the past few years. Despite the sharp drop in crop prices, farmland values were typically holding at high levels.

Wages and Prices. Relative to the previous report, prices rose at a slightly slower pace in most industries, and while most firms reported only modest wage pressures, in some cases wage pressures were more pronounced. Retail price growth was minimal, likely because retailers' input costs rose more slowly than in previous surveys. Restaurant menu prices also rose less than in previous surveys despite persistent growth in input costs. Manufacturing selling prices rose slightly, while raw materials prices continued to increase at modest rates. Transportation input prices fell and fewer transportation firms raised their selling prices. Construction materials prices were up in late August and September, and many builders expected further increases. Contacts in most industries expected prices to rise moderately going forward. Increased wage pressures were

noted in a few industries, particularly manufacturing, restaurants, transportation, and energy. Some contacts continued to report a short supply of workers, particularly for drivers, construction, and skilled manufacturing positions.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Manufacturers mostly reported increases in demand, and retail and automobile sales expanded at a pace in line with the prior report. Demand for nonfinancial services generally improved and real estate activity remained solid. The energy sector continued to grow, and agricultural conditions improved. Upward price pressures eased slightly and employment held steady or increased. Outlooks remained optimistic across the board.

Prices Most responding firms said prices held steady over the last six weeks, with fewer reports of firms raising prices than in the previous report. Professional business services firms said rates were unchanged over the reporting period (though higher than a year ago), and retailers and auto dealers also noted steady prices. Changes in selling prices in the manufacturing sector were mixed. Prices for construction materials such as fabricated metals, concrete, brick, and glass rose, while prices for primary metals, transportation equipment, and high-tech products held steady and lumber prices fell slightly. Food producers continued to note selling price increases due to rising input costs. These contacts said selling prices will likely level out before raw materials prices do, and companies will try to cut costs elsewhere.

The price of West Texas Intermediate crude oil fell over the course of the reporting period, as global supply growth met softer international demand. The price of natural gas stabilized at just under \$4 per MMBtu over the past six weeks after falling during the prior reporting period. Retail gasoline and diesel prices continued to fall.

Labor Market Employment at responding firms held steady or increased, and labor market tightness continued to be mentioned by numerous contacts. Reports of hiring came from staffing and transportation services firms and construction-related manufacturers (such as fabricated metal, cement, and brick producers). Legal firms noted a seasonal increase in headcounts from adding new fall associates. A retailer noted difficulty in hiring in the areas of the state where the energy sector was booming, and an auto dealer said they were losing mechanics and technicians to energy companies in the Eagle Ford region to repair oilfield trucks. A shortage of specialized heavy construction workers and chemical engineers was causing some delays in announced construction projects in the petrochemicals industry. Residential construction contacts also noted persistent labor shortages; one contact saw some easing while another said that in Houston, a few builders were placing cameras and armed guards at their construction sites to prevent poaching of workers. Energy contacts saw no relief from the tight labor market, especially in West Texas.

Several contacts continued to report upward wage pressures. Staffing services firms said candidates were often receiving multiple offers, which caused some firms to increase wages to stay competitive. Some primary and fabricated metals manufacturers noted higher wages; increases as high as

30 percent over the last six months were seen in some trades, according to contacts. High-tech manufacturers said wage pressures remained elevated for some higher-skilled workers.

Manufacturing Most manufacturers noted an increase in demand since the previous report and outlooks were largely positive. Primary metals producers said demand grew but at a slower pace, possibly due to seasonal factors. Demand for fabricated metals strengthened and was up notably from last year, with contacts pointing to increased demand from a number of segments of the construction industry. Demand was mostly flat for lumber, cement, glass, and brick manufacturers, although a couple of contacts noted a pickup in demand for these products in the Dallas area.

Contacts in high-tech manufacturing reported demand was stable or higher over the past six weeks. Respondents expect strong demand growth for the next three to six months, primarily due to expansion in capacity by cloud and mobile computing providers. Food producers said demand increased somewhat over the reporting period, mostly due to seasonal factors, but was largely unchanged from a year ago.

Petrochemical producers reported slightly lower production as various repairs and upgrades to existing facilities had fallen behind schedule. Firms in this sector noted some delays in announced construction projects because of worker and materials shortages as well as delays in securing permits. Refinery utilization rates along the Gulf Coast were strong, and outlooks through year-end remained positive among refiners and chemical producers.

Retail Sales Retail sales increased at about the same pace as during the prior reporting period. A continued boost from back-to-school shopping was the most-noted driver of recent sales growth, and demand was also up year-over-year. Contacts' outlooks for the remainder of the year were optimistic, and they expect demand during the holiday shopping season to be slightly stronger this year than in 2013.

Automobile sales continued to increase, at a pace similar to the prior reporting period. Demand was up year-over-year. Contacts were satisfied with inventory levels and said they had plenty of vehicles. Outlooks for the rest of the year were positive, although one contact noted that an increase in interest rates could drastically change the landscape of their industry.

Nonfinancial Services Most nonfinancial services firms reported demand was up from six weeks ago, and outlooks were optimistic. Staffing firms generally noted demand increases, with one contact saying the past two weeks were the company's strongest all year. Contacts said all skill levels were in high demand, and that demand for low-skilled workers had increased. Direct hiring led demand growth, although one contact said contract and temporary worker demand will likely increase as the Affordable Care Act's effects continue to be felt. The accounting sector continued to operate at high levels of activity and demand for these services increased further over the reporting period. Demand for legal services increased as well, with particular strength coming from corporate work.

Transportation services firms said overall cargo volumes increased slightly since the previous report. Small-parcel cargo volumes increased, with retail trade (led by e-commerce) remaining the strongest source of growth. Railroad contacts noted a rise in petroleum and motor vehicle shipments. Air cargo volumes continued to trend upward as increased international air cargo demand outpaced a decline in domestic demand. Outlooks were cautiously optimistic.

Airlines reported passenger demand fell over the reporting period due to seasonal factors, but was up from a year ago. Domestic demand remained stronger than international demand.

Construction and Real Estate The District's housing sector remained solid overall. Single-family home sales were flat to down over the reporting period. Land prices continued to trend upward at the same pace; however, the pace of home price appreciation slowed, with one respondent noting a slight pushback in pricing from buyers. Contacts said a few homebuilders were expanding production of more-affordable high-density housing. Robust apartment demand kept occupancy high and rent growth solid despite elevated levels of multifamily construction activity. Single- and multifamily housing contacts were optimistic in their near-term outlooks.

Office leasing activity increased in Dallas and Austin and held steady at high levels in Houston. Contacts noted moderate growth in rents. Demand for industrial space remained strong and vacancy rates remained tight in most major metro areas. Construction activity stayed elevated, and outlooks were mostly optimistic.

Financial Services Demand for loans accelerated slightly since the last report. Financing for mergers and acquisitions as well as capital expenditures rose in recent weeks. Lending to medium-sized businesses continued to grow, and financing activity for commercial real estate development remained robust. Mortgage lending grew slightly, but contacts noted that a low supply of housing was constraining growth. Contacts noted increased optimism among clients.

Energy Demand for oilfield services in the District continued to grow, although activity in the Permian Basin in September was muted temporarily by flooding. Growth in Texas drilling activity was again concentrated outside of the major basins. Outlooks for the rest of the year remained optimistic and were largely unchanged from the prior reporting period.

Agriculture District drought conditions eased slightly over the past six weeks, although more than half of Texas remained in a drought that has plagued the state since the end of 2010. Harvesting of row crops like cotton and corn continued, and crop conditions were slightly better than last year. Cattle prices continued to be at a record high while feed prices fell, boosting profitability for cattle producers. Domestic and export beef demand remained strong despite retail beef prices reaching a record high in August. Improved moisture conditions overall have increased optimism for winter crops and expanded prospects for cattle herd rebuilding.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the Twelfth District continued to improve moderately during the reporting period of mid-August through late September. Overall price and wage inflation remained modest. Retail sales grew slightly, and demand for business and consumer services increased moderately. Overall manufacturing activity picked up, while agricultural conditions were mixed. Real estate activity advanced, but growth in the residential sector varied across the District. Loan demand increased moderately.

Prices and Wages

Overall price inflation remained modest during the reporting period. Contacts reported that consumers are very price conscious. A shortage of cattle drove up beef prices, and the California drought boosted nut prices. Although operating costs, commodity costs, and packaging costs in the wholesale food industry increased slightly, contacts reported that competition prevented these cost increases from being passed on to retail prices for most food items. Electric utility input prices increased modestly during the reporting period. Prices in the technology sector decreased for both businesses and consumers, driven by competitive pressures and technological advances. Prices of certain building supplies, including wallboard, wood, cement, and insulation increased a bit. Contacts reported that restaurant prices increased slightly in July and August in some states in response to minimum-wage increases. Las Vegas hotel room rates for August were higher than in any August since 2007.

In general, wages continued to increase at a modest pace. Most contacts reported that wages and salaries were up about 2½ percent to 3 percent compared with last year. Wages for software developers, for workers in skilled trades, and, in some areas, for experienced construction workers increased faster. Declines in defense spending led some aerospace manufacturers to institute greater employee cost-sharing on benefits.

Retail Trade and Services

Overall retail sales grew slightly during the reporting period. Sales of higher-end clothing picked up, but somewhat less than respondents expected. Food sales increased a bit, and contacts reported that grocery inventories were stable. However, the droughts in California and other parts of the West resulted in lower-

quality produce. Revenue at hobby game stores showed strong growth. Contacts characterized consumers as still cautious in their spending habits but expect retail demand to strengthen further soon.

Demand for business and consumer services increased moderately. Demand for legal services picked up in some areas, in connection with rising real estate activity. Demand for advertising services declined, but businesses increased spending on cloud computing services. Contacts reported that industry leaders expect information technology spending to accelerate in 2015, driven by spending on big data and security services, as well as on cloud computing. Casual dining picked up in August, the first monthly increase in sales in that segment this year. Contacts expect continued slow growth of casual dining in the coming months. Las Vegas year-to-date visitor volume increased moderately over 2013. Total occupied room nights and occupancy percentage at Las Vegas hotels climbed.

Manufacturing

Overall District manufacturing activity picked up during the reporting period. Worldwide semiconductor sales were up markedly over the previous year. Recent sales of manufactured steel and recycled metals also were up over the same period a year earlier. Revenue for biotech and pharmaceutical manufacturers grew notably since the previous reporting period. Industry contacts detected stronger demand for pharmaceuticals stemming from the increase in the number of insured people, and they expect healthy earnings growth to continue. Demand for medical equipment was also very strong. Aerospace and defense capacity utilization declined since the prior reporting period. In contrast, contacts reported that capacity utilization among commercial aircraft producers increased to record levels.

Agriculture and Resource-related Industries

Agricultural conditions in the District were mixed during the reporting period. Continuing droughts in California and parts of Washington and Idaho elevated water costs and depressed harvests of cotton and various grains, vegetables, nuts, and legumes. Farmers increased the number of acres lying fallow and reduced herd sizes. However, low corn prices and stable fertilizer and machinery prices benefited dairy and feedlot operations. Milk prices increased, and export demand for hay from the West Coast reached an historical peak. Sales of electricity and natural gas to the manufacturing sector have increased markedly since the beginning

of the year. Agricultural land prices remained relatively high.

Real Estate and Construction

Real estate activity in the District advanced, but growth trends in the residential sector were uneven across the District. Contacts reported that in a few areas, prices of single-family homes accelerated, while in other areas the pace of price increases declined. In a few areas, year-to-date single-family housing starts were down compared with the same period in 2013. Sales of single-family homes were stable during the reporting period. Overall, multifamily construction and development activity remained strong. Commercial office demand was robust in San Francisco and Silicon Valley, and rents increased compared with the previous reporting period. In Los Angeles, commercial real estate construction picked up.

Financial Institutions

Overall loan demand increased moderately since the previous reporting period. In some areas where lending activity had been stagnant for a long time, demand for commercial and industrial and commercial real estate loans picked up. Other areas that had already been experiencing growth in loans showed continued expansion. Asset quality improved since the previous reporting period, and contacts reported that current overall loan performance was comparable to that seen before the recession. Competition among lenders for customers with high-quality credit remained intense. Contacts reported that this competition had depressed interest rates on loans, reducing net interest margins and profitability.