

For use at 2:00 p.m., E.D.T.
Wednesday
July 15, 2015

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

July 2015

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS**

July 2015

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SUMMARY*

All twelve Federal Reserve Districts indicated that economic activity expanded from mid-May through June. Activity in New York, Philadelphia, and Kansas City grew at a modest pace, while Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco saw moderate growth. Compared with the previous report, growth remained steady in Cleveland, and Boston reported conditions were stable or improving. Boston, Philadelphia, Atlanta, Kansas City, and Dallas reported that contacts were optimistic about future growth, while Chicago and San Francisco cited optimism coming from specific sectors.

Improvements in consumer spending varied by District. Some Districts indicated that low energy prices helped boost spending, while some border Districts noted weakness tied to the rising dollar. Automobile sales increased in almost all Districts. Tourism expanded in most regions, except New York where activity slowed.

Nonfinancial services experienced moderate growth since the previous report. Boston, Richmond, St. Louis, Minneapolis, and Dallas noted strength in professional and business services. Boston and Richmond saw growth increase for healthcare services.

Transportation activity was mixed across the country. Trucking was weak in Philadelphia but volumes held steady in Dallas. Ports in Richmond cited record volumes in freight. Reports on manufacturing activity were uneven across the country, but positive in Boston, Philadelphia, Richmond, Atlanta, Chicago, and St. Louis.

Reports on residential and commercial real estate markets were positive. Home sales increased for most Districts, although Philadelphia and Dallas reported sales were mixed, and New York reported a decline in sales volume. Most Districts noted home price appreciation. Residential construction activity varied across most of the country. Commercial real estate activity increased at a modest pace for several Districts, while non-residential construction, especially multifamily, was strong in many Districts.

Lending activity increased since the last report. Real estate lending was up in half of the Districts. Consumer lending, particularly auto loans, rose in several Districts. Districts

* Prepared at the Federal Reserve Bank of Atlanta and based on information collected before July 3, 2015. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

that reported on delinquency rates indicated that they were low. Credit quality and credit standards were mostly unchanged since the previous report.

Among Districts reporting on agriculture, rainfall damaged crops in Chicago and St. Louis but helped improve growing conditions in Dallas. Oil and natural gas drilling declined in Cleveland, Minneapolis, Kansas City, and Dallas. Coal production was flat in Cleveland and down in Richmond. Energy related capital expenditures were down in some Districts.

Across Districts, employment levels increased or were steady in most sectors, although there were some reports of layoffs in manufacturing and energy industries. Labor market tightness was reported in Boston, Atlanta, Minneapolis, and Dallas.

Most Districts cited only modest wage pressures aside from positions that required specialized skills or were in high-demand. Prices for inputs and finished goods remained steady since the previous report.

Consumer Spending and Tourism

Consumer spending increased across all Districts since the previous reporting period, albeit at varying degrees. Philadelphia, Cleveland, and San Francisco noted that low energy prices were a contributing factor to improved consumer spending at some retail locations and restaurants. The strengthening dollar was cited by Minneapolis and Dallas as the cause of soft growth along border areas. Among Districts reporting on auto sales, sales were up except in St. Louis, where sales were mixed. Cleveland, Chicago, and Kansas City noted a shift in product mix from cars towards SUVs and light trucks. St. Louis reported increased activity in auto service and parts departments, with some contacts attributing this to customers investing in their own cars rather than purchasing new vehicles. Contacts in Chicago expect to record higher overall sales for 2015 due to further strengthening of new and used vehicle sales, and the outlook in Philadelphia, Cleveland, and Dallas remains optimistic.

Tourism improved in Districts reporting on the sector, with the exception of New York, where there were further signs of slowing. Richmond reported slightly stronger activity compared with a year ago, while Atlanta and Minneapolis indicated conditions were solid. Tourism strengthened somewhat in Kansas City but was lower than last year, and Philadelphia and San Francisco reported modest growth. Spending by tourists increased in

Philadelphia, Richmond, and Atlanta. New tourist attractions opened in St. Louis. Hospitality contacts in Richmond and Atlanta noted strong advanced bookings for the summer season.

Nonfinancial Services

Overall, Districts reporting on nonfinancial business services, such as information technology, healthcare, and professional and business services, indicated moderate growth since the previous report. Boston, Richmond, St. Louis, Minneapolis, and Dallas all noted strength in professional and business services. Kansas City reported that sales increased, but at a slower pace, than the previous report. In addition, San Francisco said that activity in technology services remained strong. Boston, St. Louis, and Kansas City reported expansionary plans in the nonfinancial services sector. Growth in healthcare services continued according to reports from Boston and Richmond. In contrast, plans for layoffs in education and healthcare were reported by St. Louis. Boston, Philadelphia, Minneapolis, and Kansas City noted expectations for continued growth in the nonfinancial services sector.

Reports on transportation activity were mixed. In Philadelphia, trucking activity continued to show signs of weakness. Dallas indicated trucking volumes remained steady; Richmond cited faster growth rates; and New York described activity as brisk. Warehousing and storage companies in St. Louis noted plans for new hiring and expansion. Cleveland attributed increases in freight shipments to seasonal factors and a clearing of cargo backlogs at West Coast ports. Ports in Richmond reported record volumes in container freight along with higher shipments of autos, and Atlanta ports cited double-digit increases in container trade and break bulk cargo. However, Atlanta and Dallas reported lower volumes in ocean shipping since the last report. Atlanta noted year-to-date railroad shipments were flat compared with the same period last year, as well as a decline in overall air cargo tonnage. Contacts in Cleveland have a moderate outlook for growth over the short term; the outlook in Kansas City is positive going forward; and contacts in Dallas anticipate strong demand in the third quarter.

Manufacturing

Manufacturing activity was uneven across Districts from mid-May through June. Philadelphia, Richmond, Atlanta, and Chicago reported that business activity increased. Boston reported mostly positive conditions, and St. Louis indicated that plans for manufacturing activity were positive since the previous report. In contrast, Cleveland, Kansas City, and Dallas reported a decline in activity. Minneapolis indicated mixed business activity, while New York and San Francisco reported flat conditions. Boston, Cleveland, and Dallas noted the strong dollar was dampening export demand, and slowdowns in the oil and gas industry were said to be negatively affecting orders in Cleveland, Chicago and Dallas.

Auto manufacturers and industry suppliers in some Districts reported strong demand, with the exception of Cleveland, which reported year-over-year declines in production at auto assembly plants. Boston and San Francisco indicated that semiconductor manufacturing was either strong or on the upswing. With only a few exceptions, fabricated and primary metal producers cited strong demand and solid growth was reported in the aerospace, construction, and plastics and rubber industries. Mixed or flat growth was reported in the chemical, electronics, food, and high-tech industries.

Similar to current conditions, the outlook varied across Districts, with some expecting moderate improvements in demand and others expecting flat or weaker conditions.

Real Estate and Construction

Several Districts reported that residential real estate activity had increased during the reporting period, including Richmond, St. Louis, Minneapolis, and Kansas City. Additionally, New York indicated that housing markets continued to improve and Dallas noted that residential real estate activity generally remained solid. Home sales were reported as generally increasing across most markets in Boston, Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City. Richmond cited improvement, and San Francisco reported continued growth in home sales. Philadelphia and Dallas indicated that home sales activity was mixed, and New York indicated that sales volume in some markets was down. Boston, New York, and Richmond reported low levels of inventory, and Minneapolis indicated that inventory had decreased from the year-earlier level in some markets; and Kansas City noted that inventories continued to fall. Most Districts indicated that home

prices were generally up over the reporting period. Reports on residential construction activity varied by District. Richmond, St. Louis, and Minneapolis indicated that activity was mixed. Cleveland reported that single-family starts picked up across most of the District; Atlanta noted that construction was up from the year-ago level, and Kansas City indicated that residential construction expanded. Boston, Cleveland, Atlanta, Kansas City, Dallas, and San Francisco each reported contacts having positive residential real estate outlooks.

Several Districts, including Chicago, St. Louis, and Kansas City, indicated that commercial real estate activity was mostly positive and that it continued to increase at a modest to moderate pace. Low and declining vacancy rates were highlighted by several Districts, including Chicago, St. Louis, Kansas City, and Dallas. New York reported that availability rates varied by submarket and property type. Rents were noted as being up slightly, increasing, or rising in Philadelphia, Richmond, and Dallas. Some Districts, like Philadelphia and Cleveland, indicated that nonresidential construction activity continued at its previous pace, while other Districts such as Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, noted an increased level of nonresidential construction activity. Multifamily construction was described as strong, elevated, robust, and picking up by several Districts, including New York, Richmond, Atlanta, Dallas and San Francisco. Commercial real estate outlooks remained fairly favorable. Philadelphia was generally optimistic, Atlanta remained positive; Kansas City expected strengthening in the months ahead; and Dallas remained cautiously optimistic.

Banking and Financial Services

Overall demand for loans during the reporting period increased in New York, Richmond, Atlanta, and Dallas, and was stable in Kansas City. Consumer loan demand was steady in Chicago and Kansas City. Commercial loan demand increased in New York, strengthened in Richmond, and remained robust in San Francisco. Reports of commercial and industrial (C&I) loan growth were mixed, and ranged from strong in Philadelphia, to increased in New York and St. Louis, flat in Chicago, and slower in Dallas. Loan volume increased at a modest to moderate pace in Philadelphia, Cleveland, and St. Louis. Mortgage lending grew steadily in Chicago, Kansas City, and San Francisco. Cleveland noted seasonal increases in mortgage loans, and Richmond reported a modest increase. Real estate lending

was flat in Philadelphia, and increased in St. Louis. Mortgage refinancing increased in Atlanta and held steady in Chicago. Several Districts including Philadelphia, Cleveland, Atlanta, and San Francisco, reported increased consumer lending, with particularly strong growth in auto loans. Competitive pricing for prime auto loans in Chicago led to further expansion of sub-prime auto lending. Revolving credit for consumers expanded in San Francisco. Home equity lending increased in Cleveland and Atlanta, where banks faced increased competition for loans from nonbank lenders.

Credit quality was unchanged in New York, Cleveland, and Kansas City, remained strong in Dallas, and improved in San Francisco. Richmond reported credit quality was stable with a slight decline in rural areas of the District. Delinquencies were lower in New York, remained at low levels in Cleveland and Chicago, and remained modest in San Francisco. Boston's report noted low interest rates and generous terms for commercial real estate mortgages and construction loans. Credit standards were largely unchanged in other Districts including Cleveland, Kansas City, and Dallas, while there were mixed changes in Richmond. Deposit levels increased in St. Louis, Dallas, and San Francisco, and remained stable in Kansas City.

Agriculture and Natural Resources

Agricultural conditions were mixed. Significant rainfall affected several Districts, with crop damage reported by Chicago and St. Louis. Chicago also noted disruptions to grain shipping caused by high Mississippi River water levels. Kansas City reported that heavy rains resulted in lowered expectations for the winter agricultural harvest, although the rain also improved soil moisture for developing crops and pastures. Dallas reported that rainfall relieved drought and improved growing conditions. Drought continued in San Francisco, although agricultural output generally expanded over the reporting period. Atlanta reported soybean and cotton plantings were close to their five-year averages. Minneapolis indicated crop progress was ahead of schedule and saw no new outbreaks of avian flu among poultry stock. Chicago and San Francisco noted the avian flu outbreak resulted in higher prices for poultry and eggs. Kansas City said beef cattle production was lower than last year, holding cattle prices high. San Francisco also mentioned low cattle

supply as ranchers replenished herds. San Francisco reported demand for forestry products remained flat as foreign demand slowed and domestic gains were limited.

Reports continued to reflect decreases in oil and natural gas drilling activity in Cleveland, Minneapolis, Kansas City, and Dallas. Coal production continued to decline in Richmond and St. Louis and was little changed in Cleveland. Natural gas production was unchanged in Richmond since the previous report and growth slowed in Kansas City. Steady withdrawals of crude oil inventories continued in Cushing, Oklahoma, as seasonal demand for petroleum products picked up and refinery utilization rates rose, according to reports from Kansas City. Refinery utilization rates also remained strong in Dallas. Reports of capital spending declines continued in Cleveland, Atlanta, and Dallas, resulting in some labor cutbacks in Atlanta and Dallas. Heavy machinery manufacturers in Chicago noted weak demand from the oil and gas industry for mining equipment. Accounting firms in Dallas reported growing activity in mergers and acquisitions among oil and gas related firms, while bankers in Atlanta continued to report a slowdown in lending tied to the energy sector.

Employment, Wages, and Prices

Employment levels picked up in various industries across Districts since the last reporting period. Service-related firms in particular experienced payroll expansion in Boston, Philadelphia, Richmond, St. Louis, and Dallas. New York and St. Louis noted increased demand for human resource professionals to recruit new employees. Reports from manufacturing firms were mixed, with Cleveland, Richmond, and St. Louis noting increased job openings and/or payroll gains, whereas manufacturers in Boston and Dallas cited layoffs. Although downsizing continued in the energy sector in Atlanta, Minneapolis, and Dallas, the pace abated in Dallas since the last report. Accounts of sustained labor market tightness spanned several Districts, including Boston, Atlanta, Minneapolis, and Dallas. Firms from several Districts continued to describe shortages for particular types of skilled labor, predominantly in the construction industry.

Wage pressures were modest across most areas of the country, outside of some specialized skill and high-demand occupations in sectors such as information technology, transportation, and construction. Reports from Kansas City and San Francisco were more robust, indicating intensifying wage pressure across a broader range of industries. Cleveland,

Chicago, and San Francisco all highlighted a growing sense among business contacts that recent announcements of minimum wage hikes and pay increases at a number of large retailers could prompt broader wage pressure across other industries as firms compete to remain attractive employers.

Inflation pressures remained largely unchanged since the last report. Reports from Boston, New York, Cleveland, Atlanta, and Chicago indicated that retail price growth was subdued. Richmond reported that retail price growth slowed, while Kansas City saw an acceleration in retailers' input and selling prices. Atlanta and San Francisco highlighted the dampening effect on the cost of imported goods and commodities from the appreciating dollar and softness in commodity prices.

FIRST DISTRICT – BOSTON

Business conditions are stable or improving on balance in the First District. Retail contacts report sales increases that range from modest to large and they characterize their capital spending plans as aggressive. Revenue growth is moderate-to-strong among consulting and advertising contacts, with the exception of an economic analysis firm that posted flat sales. Manufacturers give mostly positive reports, although the stronger dollar weighed on some. No significant upstream pricing pressures are reported among either manufacturers or retailers, although one retailer raised its own prices to cover a wage increase. Labor market tightness is reported for experienced retail salespeople as well as for high-technology workers and various professional positions. Movements in headcounts are mixed, as two manufacturers report cutting jobs while business services firms are expanding payrolls. Boston's commercial real estate market is seeing accelerating rent growth and aggressive bidding for investment properties. Commercial leasing activity held steady in Providence and Portland and slowed in Hartford. Sales of single-family homes increased in all New England states except Massachusetts, and median sales price increased in four of six states. Condominium sales and price movements are mixed across New England states. Inventories of both types of dwellings remain very low in Massachusetts and declined over-the-year in all of the District's states. The outlook is mostly positive among retail contacts, stable or improving among most manufacturing contacts, and quite positive among business services contacts. Residential real estate contacts are optimistic in the face of perceived increases in buyer confidence, while the outlook among commercial real estate contacts ranges from newly pessimistic in Hartford to bullish in Boston and moderately optimistic elsewhere in the region. Several real estate contacts, both commercial and residential, expressed ongoing uncertainty over the impact of eventual interest rate increases.

Retail and Tourism

This round's report is based on a limited sample. Contacts report same-store sales increases ranging from low single digits to low double digits. Demand for home improvement goods is strong and sales of big-ticket furniture items posted solid increases. Inventories are well managed and wholesale prices are steady or up by about 1 percent over one year ago. One contact reports having raised some prices in order to cover salary increases for a class of employees that had not seen a salary increase in five years. One firm finds that recently it has become more difficult to hire experienced salespeople. Capital spending plans among reporting contacts are fairly aggressive and are focused on investment in new stores and online sales channels. There is a general sense among contacts that the economy continues to improve and that consumer confidence is greater as a result. Contacts expect both the economy and consumer confidence to continue to strengthen through the end of 2015 and into 2016.

Manufacturing and Related Services

Of the nine firms contacted this cycle, only one reports declining sales. The firm in question attributes that decline to the strengthening U.S. dollar, a development that has rendered sales to Canadian customers only marginally profitable. The remaining 8 contacts report sales and demand levels that are either equal to or higher than their respective levels one year ago and generally in line with previous forecasts. A toy manufacturer says that the effects of the West Coast port strikes, which had earlier in the year made it difficult to deliver products, are by now largely played out. A second firm also notes that the strength of the dollar dampened its sales growth in foreign markets. A semiconductor manufacturer reports that this highly cyclical industry is on the upswing. Two firms are reducing their inventories for structural, rather than cyclical, reasons. Among contacts, pricing pressures are minimal in both upstream and downstream markets. Two contacts report that headcounts at their respective firms are being reduced. In one case the decline is being achieved through attrition rather than layoffs and reflects a secular decline in demand for the firm's services. In the other case a firm is shifting jobs from the First District to the Midwest while achieving net layoffs. The outlook is stable or improved for all but one contact.

Selected Business Services

Consulting and advertising contacts report strong demand at their firms in the second quarter. However, an economic analysis firm reports that demand is flat because financial crisis-related litigation continues to wane. A marketing firm and a health care consulting firm both report moderate year-over-year growth to the second quarter. Contacts at two health care consulting firms note that profit margins at pharmaceuticals firms are getting tighter. Strategy consultants experienced double-digit revenue growth over the past twelve months and note a trend toward increasing consolidation in their industry. A government consultant posted moderate growth, driven by a welcome rebound in government contracts. Most contacts plan to give compensation increases that are in line with or slightly above the rate of general price inflation, but two contacts follow a profit-sharing model of compensation. All contacts either hired in the past quarter or plan to expand personnel by year's end. Planned headcount increases for the year ranged from 1 percent to 10 percent, with upside potential in the case of the most optimistic firm. Openings for high-technology positions, MBAs and expert analysts are reportedly hard to fill. Contacts are generally quite bullish on the U.S. economy for the remainder of 2015 and identified fewer external risks than they did last quarter. Some contacts perceive the Greek debt situation to be a risk, if not a particularly worrying one, and some foresee an uptick in uncertainty as the U.S. enters a presidential election cycle.

Commercial Real Estate

Contacts report that office rent growth is accelerating in greater Boston, especially in urban submarkets. One contact describes Boston's office leasing market as the strongest in 50 years. Prices for

investment properties in greater Boston continue to rise and, despite accelerating rent growth, contacts remain concerned that recent sales prices embed overly optimistic rent growth assumptions. In Portland, commercial leasing activity is steady at a solid pace and a modest amount of build-to-suit construction activity is reported. In Providence, deal volume is steady in both the office and industrial leasing markets and office vacancy rates are expected to decline moving forward amid lack of construction activity. Also in Rhode Island, business sentiment is described as optimistic in the face of modest improvements in current economic conditions and passage of a state budget that is seen as favoring job creation. Hartford's office leasing volume slowed in recent weeks, prompting one contact to downgrade his outlook for that market; however, Connecticut's investment sales market remains quite strong. Bank lenders in greater Boston are reportedly offering very low interest rates and generous terms for commercial real estate mortgages and construction loans. A common concern among contacts in the First District is the potential impact on investment demand for commercial properties once short-term interest rates start to rise.

Residential Real Estate

Homebuyer confidence is up across the First District, according to contacts. Accordingly, completed sales of single-family homes increased over-the-year to May 2015 in every state except Massachusetts, which posted a decline in completed sales for the same period. The decline in Massachusetts' completed sales is attributed in part to the state's long and harsh winter, which deterred foot traffic even into April. Record-low inventory levels in Massachusetts are reportedly causing changes in the contracting environment, such as an increased willingness of sellers to let buyers out of pending sales contracts and a trend of sellers' making a sale contingent on their finding a new home to purchase. Over-the-year to May 2015, supply of single-family homes decreased in every state in the First District while pending sales increased. Median Sales Price (MSP) of single-family homes increased over-the-year in four of six New England states, while in Connecticut MSP is flat and in Massachusetts MSP decreased. The latest decline in MSP is only the second for Massachusetts in 31 months and contacts insist that buyer demand remains strong. The condominium market saw mixed results. Completed condominium sales are down in Massachusetts, Connecticut, and Vermont and up in Rhode Island, New Hampshire and Maine. MSP for condos increased in all states except Vermont and Maine. Massachusetts currently has only 1.8 months' supply of condominiums available, compared with 6 to 7 months' supply in a balanced market. Condominium inventory is down and pending condo sales are up in all six states. Contacts are generally optimistic about regional demand for residential real estate moving forward, despite voicing some uncertainty about the impact of eventual increases in interest rates.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has continued at a modest pace since the last report. Businesses generally report that selling prices remain stable, despite ongoing upward pressure on input prices and wages. Labor market activity has picked up in recent weeks. Consumer spending has generally remained soft since the last report, though there were scattered signs of a pickup toward the end of June; tourism has weakened. Manufacturing activity has remained mostly flat since the last report. Housing markets showed further signs of improvement, while commercial real estate markets were mostly steady. Both commercial and multi-family residential construction have picked up noticeably. Finally, banks report stronger loan demand, and lower delinquency rates, with particularly widespread improvement on both these measures in the commercial segment.

Consumer Spending

Retailers report that sales continued to be sluggish and on or below plan in May and June. One major general merchandise chain reports that sales were below plan, while another characterizes sales as on plan. A major retailer of building materials reports a pickup in sales. A contact at a major upstate mall notes that discount retailers are performing better than higher priced stores. Retail inventories are generally said to be at satisfactory levels, though one chain indicates that West Coast port delays and the corresponding late arrival of some merchandise has elevated inventories a bit. Prices are reported to be generally steady, on balance.

Auto dealers across upstate New York indicate that new vehicle sales were mostly flat in May but showed some signs of picking up in June; sales are reported to be down somewhat from a year earlier but still at reasonably high levels. Sales of used autos are reported to have picked up somewhat. Dealers characterize wholesale and retail credit conditions as in good shape.

Tourism activity has shown further signs of slowing—particularly in New York City, where both hotels and Broadway theatres report slowing business and declining revenues, and a major

retailer attributes recent weakness to reduced tourism. Buffalo area hotels also report lower occupancy rates but indicate that future bookings look promising. Despite the general softness in consumer spending and tourism, consumer confidence in the region (NY, NJ, Pa) surged in June, reaching its highest level since before the recession.

Construction and Real Estate

The District's housing markets have been steady to somewhat stronger since the last report, while multi-family construction has picked up noticeably. Realtors in western New York report that, after a weak first quarter, the housing market continued to strengthen in June and in the second quarter overall; strong demand and lean inventories have driven up prices and made bidding wars increasingly common. Reports from Realtors across New York State more broadly also point to lean and declining inventories and steady home price appreciation. New York City's co-op and condo market has been steady to somewhat stronger since the last report: selling prices of apartments rose moderately in Manhattan but were flat in Brooklyn. Sales volume declined citywide and was down noticeably from a year earlier—reportedly reflecting a combination of lean inventories, the stronger dollar, and the fact that 2014 sales levels were extraordinarily high.

Residential rental markets were steady to somewhat stronger. In New York City, rents were steady overall, drifting lower on larger apartments but rising modestly on smaller units. Rents have increased slightly in Manhattan, remained flat in Brooklyn and eased somewhat in Queens; the inventory of available rentals has risen but remains low across the city. Northern New Jersey's rental market has tightened, with vacancy rates declining and rents rising fairly briskly. Across the rest of the District, both rents and vacancy rates were little changed.

Commercial real estate markets across the District have been steady overall. Office availability rates were steady in Manhattan, Long Island and across upstate New York; rates edged up in the Westchester-Fairfield market but declined in northern New Jersey, though they remain quite

elevated. Asking rents for office space were little changed, except in Manhattan, where they continued to trend upwards. Retail rents in Manhattan also rose, but its retail availability rate has climbed to a multi-year high.

Office construction rebounded sharply in the second quarter—mainly in northern New Jersey and New York City—after a sluggish first quarter. Multi-family construction has also picked up considerably throughout the District, especially in New York City. A local real estate contact notes that new development, which has been predominantly rentals in recent years, is shifting back towards condos. New construction starts, as well as the amount of space under construction—for both office and apartment buildings—reached their highest levels in more than a decade.

Other Business Activity

Manufacturing firms report that business activity remained essentially flat in May and June, and contacts express somewhat less optimism than previously about the near-term outlook. Contacts in wholesale distribution, on the other hand, indicate some pickup in business, and a transportation industry contact reports that trucking activity remains brisk. Businesses indicate that selling prices have been flat to up slightly but continue to report moderate upward pressure on both wages and input prices.

The labor market has picked up since the last report. A major New York City employment agency reports that conditions have strengthened substantially across the board in recent weeks and notes that hiring activity is unusually brisk for this time of year. There is also reported to be increased demand for human resource professionals to recruit new employees—particularly in the finance and legal sectors. An upstate New York employment agency also reports strong labor market conditions and notes a shift from contract hiring to more direct hiring. Both contacts note some upward pressure on starting pay, as more job candidates have been receiving multiple offers. There

continues to be excess demand for tech workers, as well as truck drivers. Manufacturers, on the other hand, have scaled back hiring plans somewhat.

Financial Developments

Small- to medium-sized banks in the District report that loan demand increased across all categories—particularly for commercial mortgages, as well as commercial and industrial (C&I) loans. Bankers also note an increase in demand for refinancing. Contacts report that credit standards were again unchanged across all loan categories. Bankers report that spreads of loan rates over cost of funds decreased, with narrowing most widespread on commercial mortgages and C&I loans. Finally, banks report that delinquency rates were unchanged on consumer loans but improved in all other loan categories.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period. Contacts continued to report modest growth in hiring and only slight increases in wages; price increases also remained relatively slight, with most contacts reporting little change. Moderate growth of economic activity is anticipated over the next six months.

Across sectors, general service-sector firms continued to report a moderate pace of growth; however, staffing firms indicated a somewhat more modest pace this period. Tourism contacts reported modest growth compared with a strong year-ago season, while auto dealers reported relatively flat sales against their record highs from the spring of 2014. Overall, nonauto retail sales continued to grow modestly, although contacts offered mixed reports. On balance, lending volumes also continued to grow at a modest pace. Manufacturing resumed a modest pace of growth, and nonresidential construction and leasing continued at a modest pace. Homebuilders reported little or no change in activity. Existing home sales reports were mixed, but this was against a backdrop of weak growth in the spring of 2014. Home prices continued to rise slightly.

Manufacturing. Third District manufacturers reported that overall activity picked up to a modest pace of growth during the latest Beige Book period. Contacts reported similar improvements in new orders and in shipments. Gains in activity appeared to be stronger among the makers of paper products, chemical products, rubber and plastic products, industrial machinery, and fabricated metal products; activity appeared weaker among the makers of food products, primary metal products, and electronics. Slightly more than half of the contacts indicated that underlying demand for their products had increased over the past three months, while one-fifth reported no change.

Expectations of business activity growth during the next six months, particularly for new orders and shipments, have improved somewhat since the last Beige Book report. However, firms indicated little change in their expectations of future employment while softening plans for future capital expenditures.

Retail. Retail sales rose moderately, but the reports were mixed. Contacts reported record sales at convenience store locations, moderate sales growth at area malls, but only modest

growth at outlet stores. Convenience stores that sell gasoline continue to report stronger sales of nonfuel items due, in part, to the ongoing, relatively low price of gas. Contacts continued to state that customers remain value driven. A convenience store contact indicated that the very strong sales in May bode well for the stores' summer season. Generally, contacts continued to expect modest growth throughout 2015.

Auto dealers reported strong sales in May. However, compared with last year when sales were hitting record-high levels, growth has been reported as flat or down. June sales are also expected to remain strong but may also not exceed last year's robust pace. Auto dealers remained optimistic for continued strong sales in 2015, although outperforming 2014 may be in doubt.

Finance. Third District financial firms have continued to report modest overall increases in total loan volume since the previous Beige Book. Strong growth was reported for commercial and industrial lending and auto loans, while most real estate lending and other loans were relatively flat. Generally, banking contacts described a slow, steady pick-up in activity and remained optimistic for the remainder of the year.

Real Estate and Construction. Third District homebuilders have reported little or no change in activity since the last Beige Book. Contacts reported that economic and financial conditions remained challenging for contract signings on new homes. Activity remained inconsistent through the current time period. However, surviving smaller builders are generally meeting their plans and expect this year to be as good as, if not better than, last year. Brokers in the Philadelphia and Harrisburg areas reported continued year-over-year gains in home sales; however, the prior spring had been relatively weak. The Lehigh Valley and southern Jersey Shore markets reported decreases despite comparison with last year's weak sales. Home prices continued to rise slightly. Neighborhoods in and around Philadelphia's Center City remain a "hot spot," with greater demand, more sales, and stronger price gains.

Nonresidential real estate contacts reported little change to the modest pace of construction and leasing activity seen earlier. Downtown Allentown and Philadelphia remain the focus of significant new construction for office and mixed-use developments. While most of the new office demand stems from firms moving around the region, contacts suggest that some demand is being driven by employment growth from existing firms and from new locations by out-of-market firms. Overall, commercial rents continued to increase slightly. Contacts generally

remained optimistic for the ongoing growth of both new construction and leasing activity in 2015.

Services. Overall, Third District service-sector firms have continued to report moderate growth in activity since the previous Beige Book, and they remain even more optimistic about the next six months. More than one-third of the firms reported increases in employment – a higher percentage than the prior period. In contrast, contacts at staffing firms generally indicated that their activity had been somewhat slower and that their clients have been slow to make decisions to place orders and to hire recommended job placements. Trucking activity continued to show signs of weakness from the underlying economy, according to a transportation services analyst; however, the Third District remains a dominant location for warehouse distribution centers. Tourism contacts at shore destinations reported record levels of activity in Delaware and New Jersey – representing a modest improvement over a strong 2014. Early reports also suggest that tourists may be spending more, with high-end restaurants booking up on many nights. Atlantic City casino activity remains an exception, with the total take continuing its years-long slide unabated.

Prices and Wages. The overall price level has continued to increase slightly since the previous Beige Book period. About half of the nonmanufacturing contacts and three-fourths of the manufacturing contacts reported little or no change in the prices they pay for inputs and the prices received for their goods and services. Over one-third of the nonmanufacturing contacts reported increases. Among manufacturers, contacts reporting increases outnumbered those reporting decreases – a reversal from the prior period. Generally, contacts reported little change in wage pressures; some highly skilled and technical positions continue to be difficult to fill.

FOURTH DISTRICT – CLEVELAND

Business contacts in the Fourth District reported a steady level of activity over the period, with little change in the pace of growth. Reports by industry sector were mixed. Production at manufacturing plants contracted slightly. Nonresidential building contractors characterized their backlogs as strong; the housing industry saw a pickup in construction starts and purchases of new and existing single-family homes. Sales at stores and restaurants were marginally higher than those of a year ago, while new-car sales fell slightly year over year. Drilling in the Marcellus and Utica Shales declined further. Reports on freight volume were mixed. The demand for business and consumer credit continued to move slowly higher.

Payrolls expanded slightly. Staffing firms reported a pickup in the number of job openings in healthcare and manufacturing; however, placements did not keep pace. Upward pressure on wages is limited mainly to technically-skilled personnel. Overall, input and finished-goods prices were steady. We heard reports about declines in prices for steel and some petroleum-based products.

Manufacturing. Factory contacts reported that overall demand contracted slightly over the period. Key factors tempering output include a strong dollar and the downturn in the oil and gas industry. That said, suppliers to the aerospace, motor vehicle, and construction industries continue to see strong or strengthening demand. Compared to that of a year ago, demand has strengthened to some extent by a pickup in the construction sector. The outlook for the second half of 2015 varied widely. The steel industry continues to experience stiff competition from imports, competition driven in part by the strong dollar. As a result, steel shipments fell more than expected over the period; industry utilization rates declined and now stand about 10 percent below normal. Demand for steel from the auto and construction industries is still relatively strong. Year-to-date auto production at District assembly plants through May fell 3 percent below the prior year's level. This fall may be because of a sharp year-over-year decline in motor vehicle exports from domestic plants, a situation attributable to dollar appreciation.

On balance, capital budgets increased slightly over the period, mainly to take advantage of unforeseen opportunities. Spending was primarily for equipment (machinery and IT) and maintenance projects. Raw material prices were flat or lower. Contacts cited price reductions for steel and petroleum-based products. Final-goods prices were stable. Reports indicated a modest expansion in payrolls, mostly for general labor. Wage pressure was limited to high-skilled jobs.

Real Estate and Construction. Year-to-date sales through May of new and existing single-family homes were moderately higher as compared to those of the same time period in 2014. The average sales price rose about 6 percent. Single-family construction starts picked up across most regions of the District over the period. New-home contracts remain concentrated in the move-up price point categories. Prices are trending higher because of rising labor costs, more stringent building codes, and higher land development costs. Several builders commented that the market for spec homes exists, but is limited by supply side factors, including capacity constraints and difficulty obtaining construction financing. Despite this difficulty, homebuilders

remain optimistic about industry prospects for the remainder of the year.

Nonresidential contractors reported continued strong activity over the period, with revenues rising above year-ago levels. The number of inquiries has expanded to the point that general contractors are becoming more selective when bidding. Backlogs were described as strong or strengthening. Several contacts mentioned that their backlogs are at the highest level since prior to the recession, with work booked one to three years out. Demand is greatest for commercial building, healthcare facilities, office space, industrial structures, and multifamily housing (including senior living). Financing is more readily available to successful developers than it has been in the recent past. Banks and non-bank lenders are becoming more proactive in working with developers.

Capital spending by general contractors was mainly for new equipment. Materials prices were stable during the past six weeks. Over the course of the year, builders anticipate that material prices will increase by about 3 to 5 percent, primarily for concrete and drywall. General contracting payrolls increased at a modest pace, mainly for field laborers and craft workers. The construction industry remains challenged by a labor shortage, though carpenters and drywallers are the most difficult to find. As a result, firms are attempting to boost participation in apprenticeship and co-op programs, with mixed results. Reports indicate continued wage pressure for the skilled trades.

Consumer Spending. General merchandise retailers reported that their revenues were flat over the period. Athletic apparel and home furnishings (including electronics) were in highest demand. Restaurateurs experienced an increase in customer visits, an increase which they attributed to lower gasoline prices and heightened promotional activity. Retailers and restaurateurs stated that revenues were marginally better than they were a year ago, and third-quarter sales are expected to be higher than those of last year. Vendor and shelf prices were stable. Hiring is limited to new store openings. Announcements of wage increases by some large chains are providing the impetus to raise compensation levels across the industry in order to remain competitive. One chain noted that its employees are more enthusiastic and turnover is lower as a result of an increase in the hourly wage rate. Another contact said that retail employees will readily change jobs for an additional 10 cents per hour. Capital spending remains on plan for the fiscal year. Expenditures were mainly for remodeling and new store construction.

Year-to-date sales of new motor vehicles through May were slightly below those of a year ago. A strong consumer preference for SUVs and light trucks continued. OEMs and dealers are reportedly increasing incentives on small cars. New inventory is close to matching demand, except for SUVs, where inventory is light. Looking forward, dealers expect unit volume will be on par with that of 2014; however, some voiced concern about the impact of potential interest rate increases. Year-to-date pre-owned vehicle sales are moderately higher compared to those of last year. Dealers are hiring for seasonal sales positions. Skilled service technicians are difficult to attract, a situation which is putting upward pressure on wages.

Banking. Bankers reported that rising confidence in the economy as a whole is not reflected in the pace of growth of their business loan portfolios. This situation was attributed to mounting competition from nonbank lenders and the regulatory environment. CRE lending is growing at a faster rate than C&I lending. The pipeline for M&A financing is strong. Consumer credit continues to expand at a moderate pace, mainly for auto loans and home equity products. Some pickup in installment loans was noted. Interest rates for business and consumer credit were stable. Almost all of our contacts noted a seasonal increase in their residential mortgage business, which was heavily weighted toward new-home purchases. The rapid rise in rental rates was cited as a motivating factor to purchase homes. Little change was reported in delinquencies (already at low levels) and loan-application standards. Core deposit balances remain strong. Capital investment by banks was primarily for technology and acquiring community banks. Payrolls increased on net. Most hires were commercial lenders and risk managers. The number of bank branches continued to trend lower.

Energy. Little change in District coal production was reported over the period. Some reduction is anticipated going forward because of decreased demand. Spot prices for steam and metallurgical coal declined. The number of drilling rigs operating in the Marcellus and Utica Shales trended lower over the period and is now 34 percent below its peak level in the fourth quarter of last year. Natural gas production through the first quarter of 2015 was at a higher rate compared to that of the same period a year ago. Wellhead prices for oil are trending slowly higher, while natural gas prices have stabilized at a low level. Capital budgets held steady or were adjusted downward. Spending is mainly for maintenance projects and equipment. Employment-reduction plans put into effect earlier in the year have been completed. Any new hires are for replacement. Reports indicated some additional cuts in wages and benefits.

Freight Transportation. Reports on freight volume were mixed. Contacts seeing increases attributed them to seasonal factors, higher demand for construction materials, and a dissipation of lingering effects of the West Coast port strikes. Softness in shipments of consumer products, including edibles, contributed to lower top-line growth. The outlook for the next few months is for volume to grow moderately along seasonal trends. Prices for fuel and maintenance items were fairly stable over the period. Fleets continue to replace older equipment aggressively. OEMs are currently working at capacity; tractor deliveries have reportedly lengthened to eight months. The labor shortage (drivers and service technicians) continued industry wide. Hiring over the period was more for replacement than to add capacity. One contact mentioned that in his segment of the industry, fleet owners are no longer attempting to expand labor capacity, but instead are seeking ways of operating more efficiently, including working cooperatively with competitors.

FIFTH DISTRICT–RICHMOND

Overview. Economic conditions in the Fifth District strengthened moderately since the last Beige Book. Manufacturing activity increased, with a pickup in the volume of new orders and order backlogs. Retail sales strengthened, while non-retail revenues rose somewhat faster. Tourism moved into peak season with growth slightly above last year's seasonal increase. In finance, residential loan demand increased modestly since our previous report. Commercial loan demand strengthened moderately. In real estate markets, residential home sales improved. Commercial real estate leasing and purchasing also increased. Energy production was little changed overall. Labor demand increased for various categories of workers, and average wages moved higher.

According to our most recent surveys, prices of manufacturing raw materials and finished goods rose at a slightly faster pace. Retail price growth slowed from the previous moderate pace, and non-retail price growth remained modest. Industry contacts reported that agricultural prices declined and energy prices were unchanged.

Manufacturing. Manufacturing activity increased moderately since our last report. Contacts reported a general pickup in the volume of new orders and an increase in order backlogs; shipments flattened, however. Some metals manufacturers (primary and fabricated) in North Carolina and South Carolina noted an uptick in demand resulting from strength in commercial construction and industrial infrastructure development. Several food manufacturers reported a strong peak season with higher production. However, a Virginia food manufacturer reported a decline in production due to higher egg prices. In addition, a Maryland machine manufacturer stated that sales and order backlogs decreased in recent weeks, and a North Carolina gasket manufacturer reported a broad-based slowdown in the volume of new orders. A West Virginia fabricated metal manufacturer reported that order volume flattened since the previous report. According to our most recent survey, prices of raw materials and finished goods rose at a slightly faster pace.

Ports. Activity at District ports picked up in recent weeks, with port officials reporting record volumes of loaded container shipments. In addition, very high volumes of light vehicles were moving through the ports. Growth in imports increasingly outpaced growth in exports, and retailers have notified ports that they expect a strong peak season this year. Outgoing shipments of empty containers have risen sharply at one port, partly as a result of operational incentives. New construction at port locations rose, notably for manufacturing.

Retail. Retail sales growth strengthened since the prior Beige Book, with grocers, building materials suppliers, and home and garden merchants reporting an acceleration in sales. A Virginia

discount store manager said total receipts were up slightly despite a decline in customer traffic. Sales of cars and light trucks varied, with larger dealers continuing to describe robust growth in sales. However a large motorcycle dealer said the peak season has started but sales have declined by double digits.

According to our most recent survey, retail prices rose at a slower pace in recent weeks.

Services. Non-retail services firms reported moderately faster growth in revenues since our last report. National trucking firms located in the Fifth District had slightly faster growth, although some of the strength was attributed to gains in market share. Professional, scientific, and technical firms reported continued revenue strength. Executives at healthcare systems described steady to stronger demand. A financial services executive in Virginia stated that business was “slowly inching up,” while a West Virginia CPA firm had no change in customer demand. Services prices continued to rise at a modest pace.

The peak season for tourist activity began on a slightly stronger note this year. Contacts in North Carolina representing the mountainous areas and the Outer Banks, said that bookings were up compared to a year ago as the summer season got underway. A similar report was shared by an executive at a resort in Virginia, who also noted particular strength in online advance bookings. The Outer Banks executive added that tourists were spending more money in local shops and restaurants, even though higher food costs have pushed up menu prices. The improvement was not universal, however. A hotel executive near a military base reported that demand had softened. There were few reports of room rate changes.

Finance. Loan demand strengthened since our previous Beige Book. On the residential side, a banker in North Carolina said that lending improved, but noted that an above-average portion of activity was coming from investors, causing home prices to rise. A lender in Maryland reported that loan growth was “healthy,” although net interest margins were shrinking. Commercial loan demand increased moderately across most of the District. Lenders in North Carolina and Virginia reported greater demand and growing pipelines for commercial loans, but added that regulations and excessive paperwork were delaying loan closings. A lender in West Virginia, however, said that demand for commercial loans was tepid. Reports on credit standards were mixed. The West Virginia lender reported some tightening for commercial loans. He added that guarantees and historical relationships had little influence on underwriting decisions. Conversely, lenders in Maryland, Virginia, and North Carolina said that competition for loans was leading to aggressive pricing, loan structures, and covenant-type lending. Credit quality was largely reported as stable with some slight declines in rural areas. Deposit growth increased in Maryland (particularly for small businesses) and West Virginia. Interest rates moved slightly higher, according to contacts in North Carolina and West Virginia.

Real Estate. District housing market activity continued to increase at a moderate pace since the previous report. Realtors reported steady buyer traffic in the past six weeks, but expect a typical seasonal slowdown heading into the summer vacation months. Average sale prices rose slightly in several markets,

while days on the market varied. Housing inventories remained low across the District. A broker in Greensboro, North Carolina stated that sales were very strong and he expects continued strength through August, but that inventory remains low. Additionally, a business contact in Charlotte, North Carolina reported strong demand for new homes, with short supply. A Realtor in Baltimore reported an active market for homes below \$500,000, noting that properties in excellent condition sell quickly. Residential construction reports were mixed. Multifamily leasing and construction activity remained strong, with continued increases in rental rates.

Commercial real estate activity increased modestly overall since the previous report, with a pickup in activity in the industrial sector and reports of slower growth in the office sector. Vacancy rates and rental rates varied across submarket and region. A business contact in Baltimore reported increased demand for industrial space since the previous report, and a Columbia, South Carolina broker reported a very active class B warehouse market. A Realtor in Columbia, South Carolina reported a surge of retailers looking for land sites, noting accelerating land prices and limited supply. A Greensboro, North Carolina source said the office market was soft, with an abundant supply of class B and class A space. In contrast, a Columbia, South Carolina Realtor reported a shortage of office space. Brokers in the District of Columbia and in Maryland reported a slight increase in the demand for office space, and said that that concessions had tightened up somewhat. A Richmond broker said that sales are “rolling in” and there are a lot of properties under contract right now. An hotelier in western North Carolina stated that there were several new hotels under construction and in the pipeline in the mountains of North Carolina. A Realtor in the District of Columbia reported softer commercial sales since the previous report. Commercial construction increased slightly in Richmond; Asheville, North Carolina; and in Columbia, South Carolina.

Agriculture and Natural Resources. Agriculture contacts reported modestly stronger business conditions since our last report. Growers said that seasonal planting of corn, soybeans, and cotton is nearly over. A farmer in western Virginia reported large yields of hay and higher hay prices. Sales of his other agricultural products declined, however. A nursery executive in Virginia Beach stated that sales flattened seasonally. A farmer in North Carolina reported he had replanted crops that had been damaged by dry weather. However some farmers had to destroy crops due to extremely low yields, with insufficient time to replant. Since the previous report, commodity prices remained low, with the exception of hay prices. Input prices increased slightly.

Natural gas production was unchanged overall since our previous report, while prices declined slightly. Coal production continued to decline and prices were unchanged.

Labor. Since our previous report, the demand for labor increased moderately for many skill sets, including entry level, semi-skilled, and highly skilled. Shortages were reported for warehouse workers, forklift operators, construction workers, health care technicians, engineers, chefs, managers, biotech and

IT professionals, and especially cybersecurity specialists. A staffing agent in Virginia noted difficulty finding warehouse workers and laborers who could pass background checks and drug tests. Temporary workers were becoming permanent employees at a slightly faster rate. An executive at an online agency stated that many job seekers were already employed and looking for a better, higher paying job. Wage increases were reported for some hospitality workers, architects, health care technicians, and textile workers. However, several sources said that merit-based bonuses and other benefits, rather than wage increases, were being used to compensate employees. According to our most recent surveys, employment in the service sector expanded at a slightly slower pace while manufacturing employment grew marginally faster; average wages rose for both service sector and manufacturing employees.

SIXTH DISTRICT – ATLANTA

Reports from Sixth District business contacts indicated that economic activity expanded at a moderate pace from mid-May through June. The outlook among businesses remained positive as most anticipate higher growth in the near term.

District merchants noted a modest improvement in sales activity since the previous report. Vehicles sales remained strong. The tourism sector continued to experience solid activity. Reports from residential brokers and builders indicated home sales increased from year earlier levels. Real estate contacts also noted that home prices modestly appreciated since the previous report. Commercial real estate contacts continued to cite improved demand for properties and construction increased from a year ago. Overall, manufacturing activity continued to expand. Bankers noted increased loan demand. District firms reported continued tightness in the labor market. On balance, businesses reported subdued wage and input cost pressures.

Consumer Spending and Tourism. Some District retailers indicated a slight rebound in sales from the weather- and West Coast port-disruptions experienced earlier this year. Apparel and general merchandise retailers noted the pace of sales growth was, at best, slow year-over-year. Expectations are for improved activity as the next major holiday falls on a weekend. Auto sales continued to experience robust sales activity.

On balance, travel and tourism contacts continued to report positive activity from mid-May through June. Contacts in Georgia, Florida, and Louisiana reported strong occupancy numbers and an increase in consumer spending from a year ago. Year-to-date Mississippi casino gaming revenues increased compared with the same period last year. Advanced bookings in the hotel and conference segments were noted as being strong for the summer season.

Real Estate and Construction. Most residential brokers indicated that home sales met or exceeded their plan from mid-May through June. More than half of contacts reported that home sales had increased from the year earlier level. The majority of brokers indicated that inventory levels had remained the same or fallen from the prior year's level. Further, most contacts noted that buyer traffic was up compared with a year earlier. Brokers continued to report modest home price appreciation, and noted that they expect home sales activity to increase slightly over the next three months.

The majority of homebuilders indicated that construction activity was up from the year-ago level. New home sales activity and buyer traffic was also described as being slightly up

from a year earlier. Many builders indicated that the inventory of unsold homes remained unchanged from a year earlier. Most builders reported some degree of home price appreciation. The outlook among builders for new home sales and construction activity over the next three months remains positive.

District commercial real estate brokers indicated that demand continued to improve for all property types, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Commercial contractors indicated that nonresidential construction activity had increased from the year-ago level. Many contacts continued to report that apartment construction remained robust. Most contacts reported a backlog that was greater than the previous year. The outlook among District commercial real estate contacts remains positive.

Manufacturing and Transportation. Manufacturers indicated that overall activity expanded from the previous reporting period, even though decreases in new orders and production were observed. Employment levels at factories continued to rise, while supplier delivery times increased and finished inventory levels were slightly elevated. Similar to the previous report, less than half of contacts expect an increase in production levels over the next three to six months.

District transportation contacts reported that activity moderated from mid-May through June. Logistics contacts reported a slowdown in freight. Year-to-date railroad volumes were flat, though year-over-year increases were noted in the movement of petroleum products and metallic ores. Shipments of iron and steel scrap and primary forest products were down notably. Domestic activity for maritime shipping companies slowed as shipments of coal and steel related to energy production deteriorated. Air cargo contacts continued to note a decline in overall tonnage. Freight volumes at District ports, however, remained robust with double-digit increases in break bulk cargoes and container trade.

Banking and Finance. Banking contacts continued to report that credit was readily available for qualified borrowers. Competition for loans remained elevated as private equity firms and individual lenders competed in the same lending arena traditionally occupied by banks. Lenders reported increased mortgage refinancing as rates dipped and home equity levels continued to improve. Auto lending remained strong. Bankers in Louisiana continued to report a slowdown in lending tied to the energy sector.

Employment and Prices. Businesses continued to report that the labor market was tightening. Competition for workers led to increased turnover, mostly for mid- and higher-level positions. Contacts also noted that it was more difficult to retain employees. Firms continued to invest in technology and human capital to improve productivity. The outlook for employment remained positive in most sectors outside of energy, where contacts indicated they implemented labor cutbacks including layoffs, worker hour reductions, and reduced wages.

The majority of contacts continued to budget staff-wide wage increases of between 2 and 3 percent for the coming year. The rising pressure to retain high-value staff continued to put upward pressure on labor costs for high-demand workers. Firms reported using both traditional wage increases and additional channels, such as increased paid time off or bonus opportunities to help retain and attract staff. Businesses cited subdued input cost pressure and modest success passing on price increases, with the exception of retailers, who continued to face strong pressure to keep prices in check. According to the Atlanta Fed's survey of business contacts, year-over-year unit costs were up 1.4 percent in June, the lowest reading since October 2012. Restrained costs across a number of commodities, combined with strength in the dollar, supported higher margins for businesses that consume or purchase substantial quantities of commodities or imported goods.

Natural Resources and Agriculture. Firms engaged in oil and gas production continued to curtail capital expenditures and focus on cost management and operational efficiency strategies. Contacts cited that these efforts resulted in labor cutbacks and reductions in soft and variable costs, which applied downward pressure on the rates charged by oilfield support service providers and suppliers. Where occurring, most new energy industry capital investment was concentrated in deepwater exploration and production and pipeline construction for crude oil transportation.

Parts of Alabama, Florida, Georgia, Mississippi, and Tennessee experienced drought conditions categorized from abnormally dry to some pockets of severe drought, the driest designations being in the southernmost tip of Florida and South Georgia. Soybean planting in Louisiana was on par with their five year average, while Mississippi and Tennessee were slightly behind. Cotton planting has been or is almost completed in Alabama, Georgia, Louisiana, Mississippi, and Tennessee and on par or slightly ahead of their five-year averages.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District was moderate in late May and June, with the pace of advance appearing to be a bit slower than during the previous reporting period. Consumer spending, business spending, and manufacturing production all grew at moderate rates, while construction and real estate activity increased modestly. Credit conditions were little changed. Cost pressures were also little changed, as prices for most raw materials remained low and wage growth remained limited. Wet weather reduced farmers' expectations for crop yields.

Consumer spending. Growth in consumer spending continued at a moderate pace. Retail sales slowed slightly in late May but then appeared to strengthen in June. Contacts reported a pickup in sales of apparel and outdoor sports equipment, while slower growth persisted in the food and beverage sector. The cool, rainy weather hurt sales of lawn and garden equipment, power equipment, and air conditioning units. High-end retailers continued to outperform lower-end stores. New and used vehicle sales strengthened further, leading dealers to revise up their expectations for sales in 2015. The strong demand also led to an increase in average transaction prices, particularly for used vehicles. The product mix continued to shift away from cars and toward trucks.

Business spending. Growth in business spending remained moderate. Most manufacturers and retailers reported comfortable inventory levels, though inventories remained elevated at steel service centers because of large volumes of imports earlier in the year and dealers' stocks of light trucks were lower than desired because of stronger-than-expected demand. The pace of capital spending was little changed, as were spending plans for the next six to twelve months. The majority of contacts reported that outlays were primarily to replace industrial and IT equipment, and spending for capacity expansion pulled back some. Several contacts in Illinois expressed concern that the state budget impasse was slowing business expansion and that non-profit service providers were particularly concerned about their future funding. Hiring and hiring plans were little changed. Labor demand was again strongest for skilled workers, particularly for many occupations in professional and technical areas, sales, and in skilled manufacturing and building trades.

Construction and real estate. Construction and real estate activity increased modestly over the reporting period. Most builders reported steady demand for residential units, and noted

that new construction was primarily concentrated in urban areas. Home sales, home prices, and residential rents all increased modestly and contacts expected the slow pace of growth to continue over the next 12 months. Nonresidential construction activity also increased modestly, driven primarily by demand for industrial buildings. Commercial real estate activity increased moderately. Vacancies declined and the availability of sublease space ticked down.

Manufacturing. Manufacturing production continued to grow at a moderate pace in late May and June. Growth in the auto industry remained strong, while growth in most other manufacturing industries was more modest. Sales of heavy trucks rose steadily, while sales of heavy machinery changed little, with steady demand for construction machinery offset by weak demand for agricultural and mining equipment. Capacity utilization in the steel industry picked up some, but remained low, with demand growing more slowly than expected. Specialty metals manufacturers reported a steady pace of new orders, with stronger results for those primarily serving the auto industry and weaker bookings for those primarily serving the heavy machinery and oil and gas industries. Manufacturers of construction supplies again reported slow but steady growth.

Banking/finance. Credit conditions were little changed over the reporting period. Financial market volatility was slightly higher, while credit spreads declined marginally. Business loan demand and pricing were flat. The commercial real estate market was an exception, with multiple contacts reporting growth and some expressing concern that the market was overheating. Consumer loan demand was little changed on balance. Mortgage and refinancing activity was steady. Contacts continued to report that competitive pricing for prime auto loans was leading to lower spreads as well as further expansion of sub-prime auto lending. The credit quality of borrowers continued to improve across loan categories and contacts reported that delinquencies were at a post-recession low.

Prices/costs. Overall, cost pressures were subdued in late May and June. Energy prices remained low, as did prices of steel and other primary metals. Most retail prices changed little. On balance, food prices continued to decline, especially for pork and fresh produce, though beef and dairy prices increased some. Overall wage pressures were again modest, though they remained stronger for occupations where contacts were having difficulty filling openings. A staffing firm reported that wage growth picked up some, and that impending minimum wage

increases would likely force their clients to further increase wages in order to maintain the premium that they pay in order to attract talent. Non-wage costs showed little movement.

Agriculture. Widespread rains saturated fields across much of the District, damaging crops and restricting fieldwork. Planting extended longer than normal and the emergence of soybeans was behind the five-year average. In contrast, corn planting finished and plants emerged before the rains hit. Corn, soybean, and wheat prices rose as yield expectations declined. High water levels on the Mississippi River stalled the loading and shipping of grain barges. Both higher feed costs and lower prices for hogs, milk, and cattle led to tighter margins for livestock producers. Egg prices remained elevated, as bird flu continued to hurt production. In addition to the large number of deaths, poultry houses were taking longer than expected to clean facilities and prepare for replacement birds.

EIGHTH DISTRICT — ST. LOUIS**Summary**

Economic activity in the Eighth District has increased at a moderate pace since the previous Beige Book. Most businesses reported improving sales and recent reports of planned activity have been mostly positive.

Residential housing market conditions continued to improve at a steady pace, and commercial construction contacts noted a backlog of projects. A survey of small to medium-size District banks indicates strong growth in bank lending. On the other hand, natural resources and agricultural conditions remain weak. Persistent wet weather has led to deteriorating crop conditions, and District coal production continued to decline.

Consumer Spending

Consumer spending continued to grow at a modest pace since the previous report, with most business contacts reporting year-to-date sales at or above 2014 numbers. Several retailers and restaurants cited sustained increases in demand as reasons for expanding their business or adding new locations. Retail openings were announced throughout the District in the restaurant, grocery, outdoor specialty store, electronics, and apparel sectors. New tourist attractions have also opened within the District.

Reports from local auto dealers on year-over-year sales were mixed. Multiple luxury auto dealers noted strong sales in recent months, while other dealers reported a slowdown since the end of the first quarter. Several auto dealers indicated an increase in the business seen by their service and parts departments, with some attributing this to customers repairing their used cars rather than purchasing new vehicles.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing companies reported plans to add workers, expand operations, and/or open new facilities in the District. In particular, several furniture manufacturers in northern Mississippi have expanded operations or made plans to add capacity in response to increased demand from hotels. Other firms that produce fabricated metal products, plastics and rubber products, machinery, and transportation equipment have also announced plans to hire additional employees and expand operations in the District. In contrast, a few firms that manufacture chemical products and primary metal products reported plans to lay-off workers or close facilities.

Reports of plans in the District's service sector have also been positive since the previous report. Firms that provide administrative and support services and warehousing and storage services reported new hiring and expansion plans in District states. In contrast, several firms in education and health services reported plans to lay-off employees.

Employment, Wages, and Prices

Anecdotal evidence suggests that wage pressures remain moderate and employment growth remains modest. Contacts noted starting wages and salaries have been increasing for administrative support and information technology positions, as well as some temporary positions. A staffing contact in the District noted an uptick in hiring for human resources positions, for both recruiting and staff development. Employers continued to note a shortage of qualified employees, especially in the commercial construction industry where companies are experiencing a smaller pool of job candidates. A contact in the information technology sector noted labor supply for IT consultants is probably at its lowest level in 20 years.

Real Estate and Construction

Residential real estate conditions continued to improve at a steady pace. District home sales increased on a year-over-year basis in May: sales were up 5 percent in Louisville, 10 percent in Little Rock, 4 percent in Memphis, and 3 percent in St. Louis. Residential construction in May was mixed when compared with the same period last year. May monthly single-family building permits increased 25 percent in Little Rock and 17 percent in St. Louis. Permits were the same in Memphis and decreased 14 percent in Louisville.

Commercial and industrial real estate market conditions were positive throughout most of the District. Contacts in Memphis reported low vacancy rates, strong demand, and continued fast absorption in the industrial market. Contacts in Louisville reported that warehouse vacancy rates continued to decrease and vacancy rates tightened in part due to increasing property demand from e-commerce companies. Commercial and industrial construction activity was positive throughout most of the District. Commercial construction contacts noted more projects than one year ago, and many have a backlog of projects. A mixed-use area with apartment, office, and retail space is planned in a long-vacant property in Louisville.

Banking and Finance

Total loans outstanding at a sample of about 80 small and midsized District banks increased about 11 percent in June relative to the same time last year. Overall loan growth was strong although slightly slower than previous quarters. Real estate lending increased about 9 percent over the period of reference. Commercial and industrial loans increased 13 percent over the period, and loans to individuals increased 11 percent. During this period, total deposits at these banks increased 8 percent.

Agriculture and Natural Resources

District crop conditions deteriorated since our previous report due to persistent severe weather in the Midwest. About 59 percent of District corn crops remained in good or excellent condition, representing close to a 16-percentage-point decline since our previous report. Notably, Illinois had a record amount of rainfall across the state, topping the previous record established in 1902. A southern Illinois corn farmer noted, “There is good drainage around here, but there’s no way to deal with that much rain.” The damage to field crops also extended to District soybeans, where 76 percent of the crop is rated in good or excellent condition, down 10 percentage points since our previous report. In contrast, the condition of District cotton, rice, and sorghum crops improved moderately since our previous report. District coal production continued to fall short in May, with 13.8 percent fewer tons produced than in the same month last year. Year-to-date production is 7.4 percent lower than at the same time last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew moderately since the previous report. Increased activity was noted in consumer spending, tourism, commercial construction, commercial and residential real estate, and professional services; agricultural conditions improved slightly. Activity decreased in energy and mining, while manufacturing and residential construction were mixed. Labor markets tightened slightly since the last report. Overall wage increases remained moderate, while prices were generally level since the previous report.

Consumer Spending and Tourism

Consumer spending showed signs of modest growth. A Montana mall manager reported that sales levels were above a year ago. Restaurant sales in northwestern Minnesota have picked up, and business owners were optimistic for the summer season. Retailers and hospitality managers in eastern North Dakota reported sales activity has been flat in recent months, and they anticipate consumer spending will remain flat during the summer. Visits from Canadian shoppers were down due to the strong dollar. An auto dealers association in Montana reported strong sales in May in contrast to slower sales earlier in the year.

Tourism activity was solid. Many state tourism representatives across the District predicted a strong season compared with recent years. Tourism in western South Dakota started early due to mild weather and was on pace for a strong summer season. A resort owner in central Wisconsin indicated that they were “very optimistic” about the coming tourism season. A tourism official in the Upper Peninsula of Michigan noted that summer was looking strong. According to a survey of Minnesota lodging businesses, 53 percent of respondents expect summer revenue to increase from a year ago, while 11 percent expect decreases.

Construction and Real Estate

Commercial construction activity continued to grow since the last report. In western North Dakota, a number of publicly funded road and building projects were underway. Developers broke ground on a \$250 million mixed-used project in western Montana. The value of new commercial building permits in Sioux Falls, S.D., and Billings, Mont., year-to-date in May was much higher than a year ago. Residential construction in the District was mixed. The value of residential permits in the Minneapolis-St. Paul area increased 15 percent in June compared with a year earlier. In contrast, the value of new residential construction permits in Sioux Falls was

down more than 30 percent year-to-date in May from last year, while the value of new residential permits in Billings was down slightly.

Commercial real estate activity increased since the last report. Developers purchased land for a \$500 million, 1-million square-foot mixed-use development in western North Dakota. Several large data center operators were in the process of expanding facilities in Minnesota. Two large retail lease deals were recently signed in downtown Minneapolis. Activity in residential real estate markets increased since the last report. In Minnesota, May home sales increased 13 percent, the median sales price increased 8 percent, and inventory decreased 8 percent, compared with a year ago. In Sioux Falls, May home sales increased 12 percent, the median sales price increased 10 percent, and inventory decreased 19 percent. In western Wisconsin, home sales increased 9 percent in May from a year earlier, while the median sales price increased 10 percent. In northwestern Wisconsin, real estate agents reported “the busiest spring in 10 years.” Meanwhile, an agent in western North Dakota said sales were flat.

Services

Professional services activity increased. A recent professional services survey conducted by the Minneapolis Fed and Minnesota Department of Employment and Economic Development indicated that sales and profits grew over the past year and firms expected growth to continue. An accounting firm in Minnesota commented that “clients are feeling good and business is as good as ever.”

Manufacturing

District manufacturing activity was mixed since the previous report. An index of manufacturing activity for Minnesota and South Dakota released by Creighton University (Omaha, Neb.) increased in June from the previous month; the index for North Dakota fell to a level indicating contraction in activity. A producer of plumbing equipment announced an \$18 million expansion to a pipe manufacturing plant in Minnesota. A facility that produces road construction equipment announced an expansion. However, some contacts were concerned about a slowing in exports.

Energy and Mining

The slowdown continued in the energy and mining sectors. The number of active drilling rigs in the District fell further since the previous report, with some leveling in the pace of decline in recent weeks. Diesel production began at a new refinery in North Dakota. State regulators approved a \$250 million solar energy project in Minnesota; several smaller-scale solar

facilities were also announced across the District. Output at District iron ore mines fell in May compared with a year earlier. Reports indicated that demand for sand used for hydraulic fracturing was down 30 percent compared with last year, with prices down as much as 25 percent.

Agriculture

District agricultural conditions improved slightly since the previous report. Crop progress was ahead of schedule in District states, with most corn, soybean and spring wheat crops currently rated in good or excellent condition. While solid rains have left most of the District free from drought, farmers in some areas reported that wet conditions were holding back the hay and winter wheat harvests. No new outbreaks of avian flu have been reported in recent weeks. Prices received by farmers in May decreased from a year earlier for corn, soybeans, wheat, hay, hogs, milk and chickens; prices increased for cattle, eggs and turkeys.

Employment, Wages, and Prices

Labor markets tightened slightly since the last report. According to the survey of professional services firms, 21 percent expected to increase employment over the upcoming year, while 7 percent expected decreases in staffing levels. Plans were recently announced for a new retail distribution center in Minnesota that will create 1,000 jobs. A business service specialist noted that there is strong demand across a broad range of industries for both high school and post-secondary school graduates in Minnesota. An expansion of a grocery store in South Dakota will lead to 100 new hires. However, an equipment manufacturer in North Dakota noted it will cut almost 40 jobs, following 80 layoffs earlier in the year. Labor markets continued to loosen somewhat in the energy-producing areas of North Dakota and Montana.

Overall wage increases remained moderate. Results from the professional services survey showed that, on average, wages increased by 2.1 percent over the previous 12 months and were expected to increase 2.3 percent over the following 12 months. According to a recent survey of central Minnesota businesses by St. Cloud State University, 59 percent of respondents expect to increase employee compensation over the next six months, up from 44 percent in last year's survey.

Prices were generally level since the previous report. Minnesota gasoline prices at the end of June were about the same as prices toward the end of May. According to a food company in Minnesota, input cost inflation was estimated at 2 percent for 2016. Meanwhile, metals and lumber prices dropped since the previous report.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy increased modestly in June, and contacts in most industries anticipated stronger growth in the months ahead. Consumer spending activity expanded at a moderate pace with retail, restaurant, tourism and auto contacts reporting higher sales since the last survey. Contacts in the manufacturing and energy sectors noted a decline in overall activity, however their expectations for the coming months improved since the previous survey period. Transportation firms also reported a slight decline in sales, but activity in the professional, high-tech, and wholesale trade sectors continued to increase. Real estate activity continued to rise at a modest pace in June, and commercial and residential construction activity was expected to accelerate at a moderate pace in the coming months. Most bankers reported stable overall loan demand, loan quality and deposit levels. Heavy rain in late May led to a decline in expectations for the winter agricultural harvest, but soil moisture improved for developing crop and pastures. Prices continued to rise slightly in the majority of industries, and wages grew modestly.

Consumer Spending. Consumer spending activity rose moderately and remained higher than a year ago, with mostly solid expectations heading forward. Retail sales increased moderately in June and were above year-ago levels. Several retailers noted an increase in sales for building materials and summer-related products, while sales of home furnishings were weak. Expectations for future sales remained strong, and inventory levels were expected to rise slightly. Auto sales continued to increase modestly and were slightly higher than last year, with further gains expected in the months ahead. Dealer contacts noted particularly strong sales of larger vehicles such as trucks and SUVs. Auto inventories increased, and most contacts expected inventory levels to continue to rise. Restaurant sales improved considerably compared to the previous survey and year-ago levels, and additional gains were anticipated in the coming months. District tourism activity strengthened moderately in June but was lower than last year.

Manufacturing and Other Business Activity. Manufacturing activity continued to decline in June but at a slightly slower pace than during the previous survey period, while other business activity was mixed. Manufacturing production contracted further, although producers' expectations for future activity were positive and slightly higher than the previous survey. Durable goods manufacturing declined, but at a more gradual pace than in the previous survey period. Nondurable goods production also fell further across most subsectors, and at a somewhat faster pace of decline than in the previous survey. Production declined in all District states except for Colorado, but continued to be weakest in energy-concentrated Oklahoma.

Manufacturers' capital spending plans increased to their highest level in five months. Transportation firms reported a decline in activity since the previous survey, although sales were modestly higher than a year ago and expectations were positive heading forward. Professional, high-tech, and wholesale trade contacts reported increased sales but at a slower pace than the previous survey. Firms expected activity to rise moderately in the months ahead. Most transportation, wholesale trade, professional, and high-tech businesses reported solid capital spending plans.

Real Estate and Construction. Real estate activity continued to increase at a modest pace in June, and contacts expected activity to expand at a faster pace over the coming months. Residential real estate sales rose modestly since the previous survey period and were above year-ago levels. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Home prices continued to make strong gains, and inventories fell further. Expectations for sales and prices were strong, and inventories were expected to decline modestly. Residential construction and related business activity expanded as new housing starts and construction supply activity increased at a modest pace, and contacts anticipated a moderate rise over the coming months. Commercial real estate activity continued to expand at a modest pace in June as vacancy rates decreased and absorption rates, completions, construction underway, sales and prices increased. The commercial real estate market was expected to strengthen moderately over the months ahead.

Banking. Bankers predominately reported stable loan demand, loan quality, and deposit levels since the last survey period. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, and consumer installment loans, with fewer bankers indicating an increase in these categories compared to the last survey. Demand for agricultural loans was primarily split between increased and steady demand. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, most respondents expected loan quality to remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories, and most respondents reported steady deposit levels.

Energy. Energy activity continued to decline in June, but expectations for the coming months improved considerably despite continuing concern about the volatility in oil prices. Compared to the last survey period, the number of active oil drilling rigs fell modestly through June, primarily in Oklahoma, and drilling activity declined, but at a slower pace. Steady withdrawals of crude oil inventories continued in Cushing, Oklahoma, as seasonal demand for petroleum products picked up and refinery utilization rates

rose. Oil prices reached the highest levels of the year in mid-June, but struggled to maintain those levels through the end of the month. Most respondents expected oil prices to increase somewhat in the coming months primarily as a result of slowing U.S. production. Slowing natural gas production growth and higher energy demands due to warmer weather reduced oversupply and supported natural gas prices.

Agriculture. District agricultural production expectations declined slightly since the last survey. Heavy storms in late May reduced expectations for the winter wheat harvest in Kansas and Oklahoma and also delayed soybean planting progress throughout the Tenth District. However, the substantial rainfall generally improved soil moisture for developing crops and pastures, and over half of the corn crop in Nebraska, Missouri, and Kansas was in good or excellent condition. With reduced production expectations, the price of hard red winter wheat rose modestly in June, and corn and soybean prices also increased slightly. In the livestock sector, beef cattle production through May was slightly lower than last year, holding cattle prices near historically high levels. Conversely, hog production over the same period grew modestly, placing downward pressure on hog and retail pork prices.

Wages and Prices. Prices continued to rise slightly in the majority of industries, and wages grew modestly. Retail input and selling prices grew at a faster pace in June, and input prices were expected to rise further in the months ahead. Restaurant menu prices also rose at a faster pace than the previous survey. Manufacturing finished goods prices experienced a slight decline despite a modest increase in raw materials prices. Transportation input prices increased slightly, but output prices fell modestly. Construction prices grew modestly, and contacts anticipated additional increases in the near future. Wages in the retail and restaurant sectors rose at a faster rate than the previous month. Transportation wages rose slightly and were expected to continue to rise in the coming months. Respondents noted difficulty finding truck drivers, IT developers, skilled technicians and some entry-level positions.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Manufacturers mostly reported steady or weaker demand. Retail sales increased and auto sales were generally strong. Demand for nonfinancial services held steady or improved, and real estate activity generally remained solid. Loan demand rose slightly, and demand for oil field services held steady. Continued rainfall further improved agricultural conditions. Price pressures remained subdued and employment held steady or increased. Outlooks were mostly positive, except in the energy sector where they were negative.

Prices Prices generally held steady or declined. Staffing firms noted downward pressure on fees from clients, and an airline reported lower fuel surcharges and airfares. Most manufacturers noted no change in selling prices, except for cement and fabricated metal manufacturing firms, which reported lower selling prices due to increased competition, particularly from imports. Chicken prices declined rapidly as a result of an outbreak of avian flu outside the district, but egg prices have skyrocketed according to contacts. A trucking firm said rates were up due to tight capacity, and contacts in food services noted higher input costs and plans to raise prices in the fourth quarter.

Oil and natural gas prices were relatively stable compared to the prior reporting period. The price of on-highway diesel edged down, while retail gasoline ticked up seasonally.

Labor Market Employment in most industries held steady or increased. Auto dealers and retailers noted job gains and said that filling open positions was somewhat easier in areas near the oil fields. Hiring was noted by some professional and technical, financial and food services firms. Construction contacts continue to report a tight labor market particularly for skilled trades, but one contact in Houston noted a decline in unskilled labor costs. Some fabricated metals and high-tech manufacturers reported layoffs. Some downsizing continues in the energy sector but massive layoff announcements are largely finished and contacts said the industry has weathered the downturn well so far.

Wages were mostly flat to up from six weeks ago. Continued upward wage pressures for truck drivers were reported, with one firm noting that salaries were up 10 percent year over year due to shortages. Two staffing firms said that employers were considering raising wages across the board to retain productive workers. Some primary metals manufacturers increased starting

salaries in part due to skilled labor shortages and to keep up with pay raises at Walmart. Food services and petrochemicals contacts generally noted easing wage pressures.

Manufacturing Most manufacturers noted steady or weaker demand. Demand for construction-related materials was mixed. Cement producers said demand fell over the reporting period, which they attributed largely to the effects of wet weather on construction activity, although one contact cited the slowdown in oil field activity as a factor as well. Brick and lumber manufacturers saw a slight uptick in orders since the prior report, still demand remained below year-ago levels. Demand for primary metals held steady or fell since the last report, with one manufacturer noting a 20 percent year-over-year decline in orders in the second quarter. Fabricated metals producers noted improved demand.

Demand for high-tech manufacturing weakened during the reporting period, and contacts said revenue growth so far in the second quarter has been lower than projected. Weakness continued to stem from slowing in sales of personal electronics devices, particularly PCs, and communications infrastructure equipment. Outlooks were weaker than earlier in the year. Demand for transportation equipment manufacturing was mixed over the past six weeks. Aerospace parts manufacturers reported steady to higher sales. A large automobile manufacturer noted increased demand for trucks, SUVs and minivans because of low fuel prices, while a recreational vehicle manufacturer noted declining sales. Food producers said demand was flat during the reporting period as well as compared to last year, with the exception of one contact who noted a sharp decline in sales.

Refinery utilization rates remained strong. Domestic demand growth for gasoline was higher than expected, and refiners anticipate healthy year-over-year growth during the current summer driving season. Chemical producers said export demand remained weak because of the strong dollar, and domestic demand was sluggish because of weakness in industrial production and the effects of weather on construction activity in the first half of the year.

Retail Sales Retail sales increased over the reporting period. Retailers reported strong Mother's Day-related sales but said that activity weakened somewhat after that. Softer growth in sales was attributed to the wet weather and the strong dollar, which has reduced sales especially along the border. Two national retailers said Texas sales underperformed the national average, while a third national retailer said Texas was in-line with the nation and a fourth said Texas

outperformed the U.S. average. Contacts expect continued sales growth and outlooks were mostly optimistic.

Automobile sales remained strong and demand was up year-over-year. A few contacts noted slightly low vehicle inventories, and outlooks for the remainder of the year were optimistic.

Nonfinancial Services Most nonfinancial services firms reported demand was flat or up from six weeks ago, and outlooks were optimistic. Demand for staffing services was flat to up since the last report. Staffing needs were particularly strong in the professional, healthcare, and financial services sectors, although one contact said demand from all non-oil and gas sectors was solid and that orders from the energy sector had stopped declining as well. Demand for professional and technical services increased modestly in the past six weeks. Accounting firms noted a healthy pipeline of work, including more activity in mergers and acquisitions among oil and gas related firms. Law firms saw a small pick-up in demand for litigation and strong growth in real estate, financial and corporate transactional practices; however, demand continued to soften for energy related projects. A consulting firm reported robust demand and growing international interest in commercial real estate deals in Texas, while a technical services firm noted steady demand.

Sea cargo shipments fell from April to May, but were up notably year to date. Trucking cargo volumes held steady during the reporting period, and contacts said they expect strong demand in the third quarter. Airlines reported a seasonal increase in passenger demand over the past six weeks. Domestic and transatlantic demand remained strong, while travel to South America, particularly Brazil and Venezuela, continued to be weak. Contacts in the restaurant and food services industry said demand grew at a modest pace. Demand was up moderately in the large metro areas but flat to down in smaller rural markets.

Construction and Real Estate Reports on home sales and buyer traffic were mixed, but outlooks were unanimously positive. Contacts noting slower activity mostly attributed it to wet weather across much of the state. Lot deliveries and new home starts have been significantly delayed due to the rains, resulting in large backlogs and prompting a few builders to limit sales. Contacts expect to see a surge in starts in the second half. Apartment demand was generally robust, rent growth solid and occupancy high, despite elevated construction levels. Dallas-Fort Worth was the strongest market, but San Antonio saw notable improvement as well. While

demand and rent growth in Houston remains strong there is some softness in rental rates for Class A product and in construction starts.

Commercial real estate activity generally held steady, and outlooks remained cautiously optimistic. Demand for office space was solid in Dallas-Fort Worth, while contacts in Houston noted slowing in leasing activity and further increases in the level of sublease space. Industrial leasing remained active in both metros; characterized by low vacancy, rising rents and high levels of construction. Retail demand was strong, and retail construction in Dallas-Fort Worth is at a three-year high.

Financial Services Loan demand ticked up over the past six weeks. Both commercial real estate and commercial and industrial loan growth remained positive, but slowed somewhat since the last report. Contacts said loans to medium-sized businesses remained virtually unchanged although lending to auto dealers and retail stores grew at a slightly faster pace. Deposit volumes rose slower than expected at consumer lending based banks, while deposits at business lending based banks continued to increase at a moderate pace. Loan standards were nearly unchanged, and loan quality remained strong. Outlooks improved slightly since the last report.

Energy Demand for oil field services was largely flat, and the rig count fell slightly over the reporting period. Industry costs declined further, but contacts said decisions to make further cuts to capital spending still loom as firms reassessed their positions. Many firms have managed to secure funding and are generally not distressed, however, as hedge positions begin to roll off in the fall and borrowing bases are reevaluated, merger and acquisition activity may surge. Small service providers continued to be more distressed as they have less negotiating power for cutting costs and greater difficulty accessing global capital markets.

Agriculture Continued rainfall caused some localized flooding, but overall it improved growing conditions and spurred the district out of a long drought. There was enough of a break in the wet weather for most producers to catch up on wheat harvesting and planting of cotton and grain crops. The cotton crop is off to a good start, and above-average grain production is expected. Pasture conditions were better than they have been in several years, and cattle producers continued to benefit from high prices.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District grew at a moderate pace during the reporting period of late May through the beginning of July. Overall price inflation firmed a bit further, and upward wage pressures increased somewhat. Retail sales strengthened, while demand for business and consumer services grew further. Manufacturing activity was mixed but appeared flat overall. Agricultural output grew further. Real estate market activity continued to strengthen. Lending activity expanded further, spurred in part by growth in consumer lending.

Prices and Wages

Overall price inflation continued to firm somewhat. Generally strong demand in the hospitality sector prompted further increases in hotel rates. Rising prices for pharmaceuticals and increased health-care utilization associated with the aging population combined to put upward pressure on the overall cost of medical services. Prices for agricultural products were largely flat. However, the recent avian flu outbreak pushed poultry prices up, generating inflationary pressures in the restaurant sector more generally. By contrast, earlier energy price declines and dollar appreciation continued to put downward pressure on prices charged by utilities and prices of assorted raw material imports.

Upward wage pressures intensified somewhat during the reporting period. Contacts in the information technology sector continued to report rapid wage gains for workers with specialized technical skills. In the construction sector, competition for skilled labor continued to grow, fueling substantial upward wage pressures; contacts also reported a rising incidence of contractors refusing assignments because the offered compensation was too low. Contacts in the hospitality and restaurant sectors reported increased competition for available workers and consequent wage increases; some areas expect additional upward wage pressures as higher minimum wages take effect over the next few years.

Retail Trade and Services

Retail sales strengthened. Contacts noted that low energy prices, a stronger job market, and improved household balance sheets boosted consumer demand in general. Automobile sales remained robust across the

District. Demand for food and beverages strengthened somewhat, with some contacts reporting that spending shifted slightly away from generic labels toward higher priced brand-name products. Sales of electronic goods, particularly mobile phones, remained strong. Consumer confidence appeared to improve overall, and most contacts are optimistic about prospects for domestic consumer spending over the remainder of the year, although a few noted concerns that the elevated U.S. dollar could hamper export sales.

Demand for business and consumer services grew further. Contacts in the hospitality industry reported strong demand but a slight deceleration in the pace of growth as the unexpected surge in past months due to the unusually warm winter dissipated. Activity in the technology services sector continued to expand at a solid clip, particularly for providers of internet security services. Demand for health insurance continued to grow, and contacts expect a further boost now that some legal uncertainties regarding coverage through the Affordable Care Act were resolved by the recent Supreme Court decision. Demand for legal services generally remained weak, and contacts reported continued excess availability of trained legal talent. Energy demand grew modestly but was restrained somewhat by the broader use of energy conservation measures by consumers.

Manufacturing

Activity in the manufacturing sector was mixed across industries but flat overall. New orders of semiconductors increased over the reporting period, and inventories remained in line with demand. Contacts in the biotech and pharmaceutical manufacturing sector reported continued strong demand growth, and the continued availability of low-cost debt financing fueled consolidation among pharmaceutical firms seeking to enhance scale efficiencies. Deliveries of commercial aircraft increased, but new orders have fallen significantly compared with the first quarter, suggesting slower demand growth ahead. Contacts observed continued excess capacity and weak demand growth for wood products. Activity in the aerospace and defense sector expanded, but contacts expressed concern that a renewed debate over federal spending plans could constrain demand later this year.

Agriculture and Resource-Related Industries

Agricultural output grew further over the reporting period, but growth was uneven across sectors.

High mortality rates from avian influenza dragged down the supply of poultry and pushed up prices. The overall supply of cattle remained low, as ranchers withheld them from markets to replenish herds. The supply of walnuts and almonds was held down by drought conditions in much of the District, and contacts observed that water-intensive crops more generally face a challenging outlook. Demand for forestry products remained flat as offshore demand slowed and domestic gains were somewhat limited.

Real Estate and Construction

Real estate activity expanded at a solid pace throughout the District. Contacts reported continued growth for residential and nonresidential construction and sales, with particularly rapid growth in metropolitan areas with large technology sectors. A few contacts noted a rising influx of foreign investment in commercial real estate, which drove up property prices in some metropolitan areas. Construction of residential units continued to show good growth in some areas, primarily for multifamily and rental properties. Sale prices reportedly have been rising for all types of residential properties, with an increasing incidence of bidding wars reported. Shortages of skilled labor remained a constraint on growth in construction activity in many parts of the District. Contacts expect that continued improvement in household wealth will spur further growth in residential real estate activity during the second half of the year.

Financial Institutions

Lending activity expanded further. Financial institutions across the District reported that loan-to-deposit ratios rose, and many contacts reported that lending growth was broad based for consumer, commercial, and real estate purposes. Commercial lending remained robust, due in part to the availability of continued low financing rates. Mortgage lending has grown steadily in recent months. Revolving credit for consumers expanded, but delinquencies remained modest. Bank deposits expanded and asset quality improved further, boosting bank liquidity. Sustained economic growth has reopened dormant revenue channels for some banks, as reflected in rising lending for mergers and acquisitions and gift and estate planning. Net interest margins widened somewhat, although large financial firms benefited more than small firms due to their scale advantages.