

For use at 2:00 p.m., E.D.T.
Wednesday
October 20, 2010

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

October 2010

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

OCTOBER 2010

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Summary*

Reports from the twelve Federal Reserve Districts suggest that, on balance, national economic activity continued to rise, albeit at a modest pace, during the reporting period from September to early October.

Manufacturing activity continued to expand, with production and new orders rising across most Districts. Demand for nonfinancial services was reported to be stable to modestly increasing overall. Consumer spending was steady to up slightly, but consumers remained price-sensitive, and purchases were mostly limited to necessities and nondiscretionary items. New vehicle sales held steady or rose during the reporting period; sales of used automobiles were strong as well. Activity in the travel and tourism sector picked up.

Housing markets remained weak with most Districts reporting sales below year-ago levels. Reports on prices suggested stability, however. Conditions in the commercial real estate sector were subdued, and construction was expected to remain weak. Lending activity was stable in most Districts. Agricultural conditions were generally favorable, and above-average yields were expected in most reporting Districts. Activity in the energy sector continued to expand.

Input costs, most notably for agricultural commodities and industrial metals, rose further. Shipping rates increased, and retailers in some Districts noted rising wholesale prices. However, prices of final goods and services were mostly stable as higher input costs were not passed on to consumers. Wage pressures were minimal.

Manufacturing

Manufacturing activity continued to expand, and several Districts reported gains in production or new orders across a wide range of industries. The only exceptions were the Philadelphia and Richmond Districts, where activity softened compared with the previous reporting period. Exports boosted manufacturing activity according to contacts in the Cleveland, Chicago, and Kansas City Districts. Producers of semiconductors and other high-tech equipment saw continued growth in sales in the Boston, Dallas, and San Francisco Districts. Auto production rose strongly in the Cleveland and Chicago Districts. Metals producers in the Chicago District reported that September sales were the strongest year-to-date, while contacts in the Minneapolis, Dallas, and San Francisco Districts saw only modest gains. Shipments of steel in the Cleveland District continued to be buoyed by demand from energy-related, automotive, and

* Prepared at the Federal Reserve Bank of Dallas based on information collected on or before October 8, 2010. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

heavy equipment industries. Food processors in the Philadelphia and Dallas Districts noted solid demand for their products, while a few contacts in the St. Louis and Minneapolis Districts reported plans to expand existing operations.

Refiners in the Dallas and San Francisco Districts noted a slowdown in activity and rising inventories. Demand for construction-related products remained weak, and reports on activity in the wood products and furniture manufacturing industries were mixed.

Hiring at manufacturing firms remained sluggish. Inventories were generally light or in line with orders. Future capital spending plans appeared to be limited, except for in the St. Louis District where several manufacturers reported plans to build new plants or expand operations. Manufacturers' assessments of future factory activity were optimistic in the New York, Philadelphia, Chicago, and Kansas City Districts, where contacts expect business conditions to remain positive or to improve in coming months.

Nonfinancial Services

Activity was stable to modestly increasing for most professional and nonfinancial services. Demand for information technology (IT) services remained solid. IT firms in the San Francisco District noted recent growth was spurred by business investment to enhance production efficiency. In the Minneapolis District firms noted solid demand for IT services from corporate clients.

Accounting activity improved slightly, spurred by merger and acquisition work. Contacts in the Boston and Dallas Districts noted increases in consulting activity since the last report. Healthcare consulting picked up as businesses responded to regulatory changes following healthcare reform. Appraisal and title companies noted continued strength during the reporting period, and there were some reports from architectural firms that activity had picked up.

Demand for transportation services appears to have slowed, although reports were mixed. Freight companies in the Cleveland District noted steady to declining volumes over the past six weeks, and Kansas City's report said transportation firms saw unexpected weakness. Rail companies in the Atlanta District reported positive, but slower growth of automobile and industrial goods shipments, while port activity in the Richmond District was mixed. Dallas' report said intermodal and railroad cargo volumes edged up, but growth in international container trade volumes flattened, and small parcel shipping volumes declined in September. San Francisco reported a pickup in demand for trucking services.

Consumer Spending and Tourism

Retail spending was flat to moderately positive in most Districts, with the exception of the Richmond and Atlanta Districts, which noted declining traffic and sales. Contacts in the Kansas City

District noted sales were stronger than expected; back-to-school spending boosted sales in the Philadelphia and Dallas Districts. Retail spending grew modestly in the Minneapolis and San Francisco Districts, and was flat in the Cleveland, Chicago, and St. Louis Districts. Retailers said consumers are slowly regaining confidence, but remain price-conscious and were largely limiting purchases to necessities and nondiscretionary items. There were reports, however, of a pickup in sales of moderately priced household goods in the Philadelphia, Dallas, and San Francisco Districts, and gains in apparel sales were reported in the Atlanta and Chicago Districts. Inventories were at desired levels. Looking ahead, retailers in several Districts expected modest sales growth through year-end. In particular, some contacts in New York planned to add more holiday staff than last year.

Most Districts reported that sales of new vehicles held steady or rose during the reporting period. Sales of used vehicles were strong as well. Inventories remained tight, particularly for popular vehicles. Used car prices rose, reflective of solid demand and lean inventories. Respondents' outlooks were for slight growth in sales through year-end.

Reports from most Districts pointed to continued improvement in travel and tourist activity. The Richmond District reported that tourist activity strengthened, and contacts in San Francisco noted that growth in business travel and convention activity led to rising visitor counts and hotel occupancy rates. Hotel occupancy for popular tourist destinations in the Minneapolis and Kansas City Districts also rose during the reporting period and was above year-ago levels. New York's report noted that hotel occupancy rates remained high in Manhattan, but October bookings were somewhat weaker than expected. Atlanta noted that tourist activity in some areas was still being affected by the Gulf oil spill, but losses incurred in these areas were offset by increased activity in Northeast Florida, Georgia, and Tennessee and respondents' outlooks for the remainder of the year were positive. Airline traffic was stable to slightly down according to the Dallas District, but conditions were much better than a year earlier thanks to strength in business travel. Restaurants and food service contacts in the Kansas City and San Francisco Districts also noted slight increases in activity.

Real Estate and Construction

Housing markets remained weak. Most District Beige Book reports suggested overall home sales were sluggish or declining and were below year-ago levels. There were scattered reports of some improvement in sales in a few Districts, however. Philadelphia noted an increase in sales of existing homes, and Richmond, Kansas City, and Dallas reported upticks in sales of higher-priced homes. Sales reports were mixed in the St. Louis and Minneapolis Districts, with increases in some metro areas and declines in others. Home inventories were elevated or rising according to most District reports. Home prices were generally stable since the last report, although Kansas City noted a decrease in prices, and

New York and Minneapolis reported declines in some metros. Homebuilders in the Atlanta District reported downward price pressure and expressed concern about rising foreclosures and bank-owned properties coming to market.

Single-family construction activity was at very low levels, but had improved somewhat in the Chicago, St. Louis, and Kansas City Districts. Atlanta reported a softening of construction activity overall, and Minneapolis said single-family building activity was mixed across metros. Builders in the Dallas District said they had pulled back on starts considerably after the run-up earlier in the year.

Respondents' outlooks suggested sales and construction would remain subdued through year-end. There were some reports that tighter credit standards for buyers and small builders, along with general economic uncertainty, were stalling activity.

Conditions in the commercial real estate sector remained subdued. Reports suggested rental rates continued to decline for most commercial property types. The one exception was the apartment sector, where higher leasing activity led to fewer concessions, most notably in Manhattan. Office, industrial and retail rental markets remained weak, although there were a few reports of slight increases in leasing activity in the Richmond, Chicago and Dallas Districts. Commercial property sales were low overall, but contacts in the Chicago and Dallas Districts said investment demand for distressed commercial properties remained strong. Given lackluster demand for commercial space, nonresidential construction activity was limited to mostly public projects, according to District reports. Industry contacts appeared to believe that the commercial real estate and construction sectors would remain weak for some time.

Banking and Finance

Lending activity was stable at low levels across most Districts, but there were some reports that demand picked up slightly. The Richmond and Dallas District reports noted increased lending activity, and Chicago said credit conditions continued to improve in the District. Reports from Richmond and Dallas suggested that competition for quality loans had picked up. Some contacts noted there was pressure to price loans slightly more aggressively.

Demand for commercial and industrial loans remained weak as businesses continued to postpone capital spending plans because of economic and public policy uncertainties. However, merger and acquisition lending picked up in a few Districts. Commercial real estate lending remained subdued and loan standards were still tight.

On the consumer side, lending was sluggish, but there were scattered reports of improvement. Contacts in the Cleveland and Dallas Districts reported growth in auto loans. Residential mortgage lending and refinancing activity increased in several Districts, and San Francisco reported an increase in demand for nonconforming mortgage loans.

Credit quality changed little on balance. New York reported a decrease in delinquency rates on consumer loans, however, and overall quality improved in the Philadelphia and Richmond Districts, according to reports.

Agriculture and Natural Resources

Agricultural conditions were mostly favorable. Fall harvest was generally ahead of its normal pace, and above-average yields were expected in most reporting Districts. There were a few exceptions, however. Widespread rains flooded farmland and delayed harvests in the Minneapolis District while dry weather affected some crops in the Atlanta and St. Louis Districts. Unfavorable weather conditions and resulting crop losses abroad continued to boost export demand for U.S. agricultural products. Commodity prices strengthened further, boosting optimism among producers in the Dallas District and spurring higher cropland values and capital spending on agricultural equipment in the Kansas City District. Additionally, corn producers in the Chicago District were holding on to recently harvested corn in hope of even higher prices.

The energy sector continued to expand, with activity rising further in the Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco Districts. The Minneapolis District reported that mines were operating near capacity, and coal production was robust in the Cleveland and Kansas City Districts. Firms in the Dallas District noted strong domestic land-based drilling and a pickup in overseas demand had offset losses resulting from the moratorium in the Gulf of Mexico. The Cleveland and Kansas City Districts reported that strong activity had prompted hiring and an increase in capital spending at some energy firms. Respondents' outlooks were mostly positive, although low natural gas prices had dampened the outlook for producers in the Cleveland and Dallas Districts.

Prices and Wages

Input costs rose slightly, but prices of final goods and services were stable across Districts. Upward pressures on agricultural commodities and industrial metals prices were reported by several Districts. In addition, shipping costs increased in the Philadelphia, Atlanta, and Dallas Districts, and retailers in the Philadelphia and Chicago Districts reported higher wholesale prices. Pass-through of rising input costs to final prices remained limited although there were scattered reports of increases. Prices of petrochemicals rose in the Dallas District, and a few manufacturers in the Boston District said recent price increases on some of their products had been successful. Some manufacturers in the Atlanta District noted rising costs of materials and employee benefits would likely be passed on to customers in the near-term, and several manufacturers in the Cleveland District announced plans to raise product prices in an attempt

to recover rising costs. In response to rising food costs, food producers in the Dallas District reported plans to raise prices, and menu prices at restaurants rose modestly in the Kansas City District.

Wage pressures remained minimal. Most District reports found little evidence of wage increases in general. There were widespread reports across Districts that firms anticipated increased costs of employee benefits as a result of healthcare reform.

Hiring remained limited, with many firms reluctant to add to permanent payrolls given economic softness. Reports from staffing firms were mixed. Staffing firms in the New York and Dallas Districts noted a slowdown in demand for their services, and contacts in the Cleveland District said new job openings declined. Richmond's report noted demand for temporary workers picked up slightly since the last report, and staffing contacts in the Philadelphia District said clients were adding positions as workloads increased. The Atlanta report noted a preference for increasing staff hours and using temporary help rather than hiring additional full-time staff.

FIRST DISTRICT – BOSTON

Economic activity continues to exceed year-earlier levels according to most business contacts in the First District. Retailers cite somewhat more positive results than they did six weeks ago. Manufacturers report continued growth, although some at a slower pace recently than in the first half of the year. Consulting industry contacts also indicate sales are higher than a year ago. Commercial real estate markets remain in the doldrums, while sales of residential properties remain below year-earlier levels, as they have since the expiration of homebuyer tax credits. Hiring among retail, manufacturing, and consulting firms remains limited and these contacts expect continued growth, albeit at a modest pace. Indeed, across all sectors, the outlook appears to be “more of the same.”

Retail

First District retailers report mixed sales results for September and early October. Year-over-year same-store sales range from decreases in the low single digits to increases in the mid single digits. Contacts note that consumers are increasingly responsive to “getting a good deal;” those with increases attribute the uptick in sales to strong marketing, promotional activity, or stocking “the right mix of products” at discounted prices.

Inventory levels are in line with expectations and capital spending is generally on target. Headcounts are either stable or growing modestly, with most increases attributed to new store growth. One respondent notes significant cost increases for food commodities, particularly dairy, nuts, and bacon. The majority of contacts believe the recovery will be slow and steady, and even those retailers reporting sales increases characterize themselves as cautiously optimistic.

Manufacturing and Related Services

Nearly all contacted manufacturing firms report continued sales growth in the second half of the year after very strong first-half results. One semiconductor firm reports record sales and profitability in the third quarter and other firms selling into semiconductor-related markets also report robust growth. Some of this growth is fueled by strong demand overseas, but some is also coming domestically from the auto industry. Business also remains very strong at a technology services firm. However, a number of firms note that even as sales continue to increase on a year-over-year basis, demand has slowed relative to the first half of 2010. One firm, which manufactures products for the residential real estate market, attributes this deceleration to some of its customers destocking after buying in anticipation of second half demand that never fully materialized; this firm expects sluggish demand going forward. Overall sentiment amongst responding manufacturers is that demand will continue to be subdued for the rest of the year and into 2011, although few, if any, expect conditions to worsen.

Inventory levels at most contacted firms remain low, and a few are trying to bring their

inventories down further. Many respondents reduced inventories in response to the economic turmoil in 2008 and 2009 and plan to maintain low inventories and lean operations going forward to improve profitability. In contrast, one semiconductor firm has a large backlog of orders and is struggling to keep up with demand from the auto industry. A few firms are facing pricing pressures from rising input costs. In particular, the cost of steel and copper continue to rise as does the cost of wheat, which is used by a food products manufacturer. One responding firm increased prices modestly earlier in the year and anticipates having to raise prices another 1 percent to 3 percent between now and the first quarter of next year to cover rising steel costs. Other companies facing price pressures have strategically increased prices for some of their products and have met little resistance.

Hiring continues to be limited amongst contacted manufacturing firms; the few companies noticeably increasing headcount are doing so overseas. Several companies are hiring to replace workers lost to attrition or retirement, but nearly all respondents are maintaining their existing U.S. headcounts. These firms say they do not plan to do any substantial hiring until the demand environment noticeably improves and current levels of economic and fiscal uncertainty subside.

Capital spending plans at most manufacturers remain moderate. Most contacted firms continue to report that capital expenditures are in line with plans; none anticipates any big changes in capital spending heading into 2011, although nearly all report that their current financial position and ability to invest are excellent.

Overall, the firms contacted are slightly less optimistic about growth in 2011 than in the last few conversations. This softer outlook reflects both the recent softening of demand relative to earlier in 2010 and continued uncertainty surrounding consumer demand and the regulatory and tax environments.

Selected Business Services

Consulting contacts in the First District all agree that demand improved significantly in the third quarter compared to a year ago. Most saw a slight decline in demand during July and August due to seasonality and a modest increase in demand during September. By exception, a healthcare consulting firm saw revenues rise 10 percent in the third quarter and 25 percent year-over-year; this contact explains that businesses are still responding to regulatory changes following healthcare reform, which keeps demand for healthcare consulting services strong. Another contact cites increased activity from IT companies and the private equity sector, but notes demand from the construction industry is still lagging.

Prices are stable for most consulting contacts, with the exception of one firm that raised prices 5 percent. While not raising list prices, contacts have been able to eliminate discounts they offered to maintain business throughout 2008 and 2009. While most consulting respondents are only replacing workers leaving through natural attrition, some added a small number of new employees, increasing headcounts by 5 percent to 10 percent; one firm, by contrast, expects to downsize slightly next year.

Based on improved demand seen in September and early October, all the consulting contacts are optimistic about the last quarter of 2010 as well as about next year's performance. Most expect about 10 percent annual growth for 2011.

Commercial Real Estate

Reports from commercial real estate contacts are mixed. In Boston, office leasing volume remains limited, with activity flat since August and weaker than during the first half of 2010. Boston's net absorption for office space is perceived as negative, while apartment vacancy rates are falling. In Portland, leasing volume has been flat since the last report but is up year-over-year, while competition for tenants remains aggressive. A Providence contact is more upbeat, describing net absorption as positive.

In positive news from the sales market, Boston's Hancock Tower sold recently at a markup of 40 percent over its foreclosure auction price in March 2009. In contrast, a downtown Boston office building with high vacancies is being sold for less than half of its 2007 price. Despite uneven performance and limited volume in the big-ticket property market, a Boston-based bank that targets smaller-ticket properties is having one of its best years ever in terms of commercial real estate loans booked, although most of its lending activity involves refinancing rather than new acquisitions. The bank also reports that a previously non-performing retail-property loan resumed payment.

Boston contacts do not expect significant commercial real estate improvements in the near future unless the labor market heats up considerably. A Providence contact is optimistic that leasing volume will hold up in the coming months, but also noted some risks on the horizon. A Portland contact expects his firm's brokerage volume to improve in 2011 over 2010 and sees potential expansion in some (but not all) sectors of Portland's economy.

Residential Real Estate

Sales figures for single-family homes and condos continued to come in below their year-earlier levels in August. Contacts throughout New England say the expiration of the tax credit coupled with a weak economy has slowed the housing market. Meanwhile, the median prices of homes and condos rose in August compared to last year, except in New Hampshire where the median home price slipped 2.7 percent. Inventory continues to rise throughout the region; most contacts interpret the increasing number of listings as a sign of confidence among sellers. Contacts in Massachusetts and Rhode Island believe the greater choice of inventory may help draw buyers into the market; by contrast, very high levels of inventory in New Hampshire are causing concern.

Pending sales figures for Massachusetts suggest that September's final sales will also be below a year ago. Contacts around the region forecast flat sales or continued year-over-year declines for the rest of 2010. As of August, all six New England states report year-to-date home sales above last year, but most contacts expect that by the end of the year the total number of sales will be about even with 2009.

SECOND DISTRICT--NEW YORK

The Second District's economy continued to expand at a modest pace since the last report. Input prices have risen somewhat, while consumer prices remain steady. General merchandise retailers report that sales were mixed but, on balance, steady and close to plan; auto dealers in upstate New York report that sales held up fairly well in August and September and that credit conditions continued to improve. Commercial real estate markets have generally been steady since the last report. Residential real estate sales markets were generally stable across the District, while New York City's rental market showed continued modest improvement. Manufacturing-sector contacts report some pickup in business during September and early October, after a pause in August. Tourism activity in New York City, though still fairly brisk, has shown some signs of cooling since the last report. The labor market has been mixed recently: manufacturers continue to add jobs and firms in a wide variety of industries plan to increase employment in the months ahead; however, contacts in New York City report that the financial industry continues to shed jobs and that hiring for office and administrative jobs generally remains sluggish. Finally, bankers report little change in loan demand, lower delinquency rates on consumer loans, and ongoing tightening in credit standards.

Consumer Spending

General merchandise retailers report that sales have been mixed since the last report, with same store sales running roughly on par with a year ago and on or close to plan in September. Stores in Manhattan fared somewhat better than in the rest of the region, evidently helped by brisk tourism. One major retail chain notes that sales of seasonal apparel were sluggish due to unseasonably mild weather but that sales in most other categories were fairly good; this contact expects holiday season sales to be up roughly 3 percent from 2009 on a same-store basis. Another contact at a major mall in upstate New York indicates a sharp uptick in sales toward the end of September. Some New York State retailers express concern about the recent reinstatement of the state sales tax on clothing under \$110, though it is too early to gauge any effect on sales. Inventories are generally reported to be at

favorable levels, while prices remain steady; merchandise acquisition costs have also been steady. A few major retail contacts indicate that they plan to hire more holiday-season staff than in 2009. Auto dealers in upstate New York report that sales of new vehicles held up fairly well in August and September, though the cash-for-clunkers program last summer adversely affected year-ago comparisons. Sales and prices of used cars have reportedly been buoyed somewhat by strong demand and lean inventories of new vehicles. Auto dealers report continued improvement in credit conditions.

Tourism activity in New York City, though still fairly brisk, has shown some signs of cooling since the last report. Manhattan hotels report that occupancy rates remained close to 90 percent in September, while room rates continued to run 10-15 percent ahead of a year earlier. However, there are scattered reports of weaker than expected advance bookings for October, which may reflect some softening in business travel. Broadway theaters report that revenue weakened noticeably in September and was down roughly 10 percent from a year earlier; this reflects some recent tapering off in both attendance and ticket prices, the latter of which was down roughly 6 percent from a year earlier.

Separately, consumer confidence remained steady in September, though at depressed levels. The Conference Board reports that confidence among residents of the Middle Atlantic region (NY, NJ, PA) edged up in September, after falling to a more than one-year low in August; Siena College's September survey of New York State residents shows confidence holding steady in both upstate and downstate—also at weak levels.

Construction and Real Estate

Housing markets have been mixed but generally stable since the last report. Real estate contacts in both northern New Jersey and western New York State report that sales activity has remained exceptionally weak as the usual seasonal pickup in September has not occurred. The ongoing weakness was partly attributed to the expiration of the home-buyers tax credit, which is

believed to have pulled sales forward from the second half of 2010. Prices are characterized as relatively stable in upstate New York and drifting down in northern New Jersey, where one industry contact notes a sizable inventory of distressed properties on the market. Manhattan's co-op and condo market was stable in the third quarter: sales activity was steady, after accounting for a normal seasonal dip, and prices were steady to down slightly overall. Manhattan's apartment rental market improved modestly: effective rents are estimated to be rising moderately, as landlords pull back on concessions. New leasing activity picked up noticeably in the quarter—largely attributed to renters moving in response to the end of concessions on lease renewals.

Office markets across the District softened modestly since the last report. Asking rents continued to drift down in Manhattan and northern New Jersey but were mostly steady in other parts of the region. In Manhattan, office vacancy rates retreated in August and September, after rising in July. In most of the District, though, vacancy rates have edged up since the last report.

Other Business Activity

A major New York City employment agency, specializing in office and administrative jobs, reports that hiring activity was disappointingly sluggish in September—particularly from financial firms. Similarly, a contact in the financial industry notes that employment continues to drift down, as the pace of layoffs appears to have picked up a bit lately; some financial firms are reported to be in the market for lawyers and accountants but are not hiring much in other areas. Moreover, recent weakening in revenues is said to be constraining compensation at these firms, and year-end bonuses (typically paid out in January) are projected to be lower than this past year.

Manufacturing firms in the District report a pickup in activity in September, following a pause in July and August, and a growing proportion of manufacturing contacts indicate that they are increasing employment and plan to add more workers in the months ahead. Non-manufacturing contacts also report some pickup in business activity and have grown substantially more optimistic

about the general business outlook. Both manufacturers and other firms report a moderate increase in input price pressures but only modest changes in selling prices.

Financial Developments

Small to medium-sized banks report that loan demand was generally steady overall: respondents indicate a moderate decrease in demand for consumer loans and commercial and industrial loans, but a moderate increase in demand for residential mortgages; demand for commercial mortgages was little changed. Bankers also note a continued increase in refinancing activity. Credit standards are reported to have tightened for commercial and industrial loans and mortgages, with no reports of easing standards in these categories; however, banks report little or no change in credit standards for consumer loans and residential mortgages. Bankers' responses suggest some decrease in spreads of loan rates over costs of funds for residential mortgages but no change in spreads in the other loan categories. Respondents indicate ongoing widespread decreases in the average deposit rate. Finally, bankers report a decrease in delinquency rates for consumer loans but little or no change for other loan categories. Separately, contacts at credit unions indicate that credit conditions and business activity generally remain steady.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has been mixed since the last Beige Book. Manufacturers, on balance, reported slight decreases in shipments and new orders in September. Retailers posted modest year-over-year increases in sales during the back-to-school shopping period. Motor vehicle dealers generally reported steady sales in September and year-over-year gains for the month. Third District banks reported level loan volume outstanding in the past few weeks. Residential real estate agents indicated that sales of existing homes have edged up in the past few weeks, but homebuilders indicated a mostly flat sales pace for new homes. Contacts in the commercial real estate sector said there has been practically no change in market conditions since the last Beige Book. Service-sector firms reported mostly marginal increases in activity in the past month. Business contacts indicated that prices of most goods and services have shown no change, although there were continued reports of rising prices for metals and new reports of increases in lumber prices. Some retailers said there have been increases in some wholesale prices and international freight charges.

The outlook among Third District business contacts is positive, on balance, but not robust. Manufacturers forecast a rise in shipments and orders during the next six months. Retailers expect sales to expand slightly through the end of the year. Bankers expect only minimal growth in lending in the near term. Contacts in both residential and commercial real estate expect flat to slowly rising activity into the middle of 2011. Service-sector companies also expect slow growth during the next six months.

Manufacturing

Third District manufacturers reported slight decreases in shipments and new orders from August to September, on balance, as well as a decrease in order backlogs. Despite the generally slower activity among the region's manufacturing industries, some sectors reported increases in demand for their products, notably makers of industrial machinery and equipment, producers of wood products, and food processors.

Third District manufacturers expect business conditions to improve during the next six months, on balance. Among the firms surveyed in September, about 45 percent expect increases in new orders and shipments, and about 20 percent expect decreases. Manufacturing executives

continued to remark that recovery in their business has been slow and halting. One said, “Some parts of our business begin to pick up but others decline,” and another described business as “choppy.” Capital spending plans among area manufacturers remain positive, overall, but are not strong. About 20 percent of the firms polled in September plan to increase expenditures for new plant and equipment and about 10 percent expect to reduce spending.

Retail

Third District retailers reported modest year-over-year gains for the back-to-school shopping period, and most of those contacted for this report said sales have continued to move up in recent weeks. Some store executives noted that customer traffic and discretionary spending appeared to be increasing somewhat. One said, “Sales of home goods have begun to pick up, as well as sales of things that are not necessarily must-have, but the price has to be right. The consumer is incredibly price-sensitive.” Looking ahead, most of the retailers contacted for this report said they expect sales to continue to increase at around the current growth rate through the end-of-year shopping period. Most agreed that stronger growth will not set in until economic conditions, particularly employment, show clear evidence of significant improvement.

Third District auto dealers reported steady sales during September at a rate slightly above the year-ago pace. Inventories were generally described as light, and supplies of popular models were said to be particularly lean. Dealers expect sales to improve slowly during the rest of this year and into next year.

Finance

Total outstanding loan volume at most of the Third District banks contacted for this report has been level since the last Beige Book. Commercial bank lending officers said there has been virtually no change in any credit category. Bankers continued to report slack demand for both consumer and business loans. “Business loan demand is incredibly weak,” one said. Another banker said, “Credit line usage is well below normal.” With low demand for credit, some bankers reported increased competition among lenders, especially for business loans. Commercial bank officers indicated that credit quality has continued to improve as borrowers work down debt.

The consensus outlook among the Third District bankers surveyed for this report is that there will be minimal growth in lending until both consumers and businesses regain confidence that the economy is improving. Several bankers said that in recent discussions with their commercial customers, both business owners and managers said they are postponing expansion and other capital spending programs until current political and economic uncertainties are resolved.

Real Estate and Construction

Contacts in residential real estate markets reported some increases in sales of existing homes in recent weeks but relatively flat sales of new homes. However, the recent sales rate remained below the year-ago rate for both new and existing homes. Contacts continued to report that lower-priced homes are selling at a relatively better pace than higher-priced homes. Residential real estate contacts expect sales to remain slow until overall economic conditions and the employment situation begin to improve. Real estate contacts generally indicated that prices of existing homes have shown little change recently. However, one agent reported that “more sellers are just saying no to offers substantially below the asking price.”

Nonresidential real estate firms indicated that conditions have been mostly unchanged in commercial and industrial markets since the last Beige Book. Contacts reported that vacancy rates and rents have moved very little since mid-year in most parts of the District. Among property types, market conditions were said to be weakest for retail space. Some contacts also noted declining demand for industrial space, where many firms have taken a “wait and see” attitude toward new construction, according to one contact. Commercial real estate contacts expect market conditions to improve very slowly, and some estimate that a significant increase in nonresidential construction will not begin until mid-2011 at the earliest.

Services

Service-sector firms generally reported marginal increases in activity since the previous Beige Book. Some contacts said growth in customer counts, measures of output, or dollar value of sales had recently fallen below their forecasts. Among firms providing services to both businesses and individuals, there were several reports of increasing competition in terms of pricing or level of service. In the current environment, “a lot of growth is market share gains,”

one contact noted. Looking ahead, most of the service firms contacted for this report expect growth to be slow for the rest of this year and into next year.

Prices and Wages

Reports on input costs and output prices indicate little change since the last Beige Book. Most of the manufacturing firms polled in September reported no change from August in the costs of the commodities they use or the products they make. However, some producers of primary metals raised prices. Construction firms gave mixed reports on prices, with some noting steady materials costs and some indicating increases for steel, lumber, and rubber products. Retailers generally noted that most wholesale costs and retail prices have been steady, although some contacts noted recent increased costs for some commodities and higher costs for international shipping. One large retailer said foreign suppliers have indicated that they plan to raise wholesale prices next year.

Business firms in the region reported no major changes in wages, although many continued to report current or prospective increases in costs for employee health care benefits. Employers generally reported that they were not having difficulty finding workers with requisite skills at current compensation levels. Employment agencies reported that client companies are filling positions as workloads increase, but do not appear to be adding employees in anticipation of increased activity.

FOURTH DISTRICT – CLEVELAND

On balance, economic activity in the Fourth District held steady during the past six weeks. Manufacturers reported that new orders and production rose modestly. An uptick in residential construction, retail sales, and new car buying that began in mid-summer has tapered off. Nonresidential building activity showed little change. Reports from energy companies indicated stable production, while freight carriers saw a small decline in volume. Demand for business loans showed some signs of a pickup, and consumer borrowing remained weak.

New hiring continues at a slower pace than seen earlier in the year. There were scattered reports of increased payrolls in manufacturing, energy, and banking. Overall, staffing-firm representatives noted that the number of new job openings declined slightly, with available openings concentrated in healthcare and professional business services. Wage pressures continue to be contained. Apart from volatility in steel and commodity prices, raw materials and product pricing were fairly steady.

Manufacturing. Reports from District factories showed that new orders and production rose modestly during the past six weeks. Production was also higher on a year-over-year basis, with many contacts experiencing double-digit increases. Several manufacturers commented that opportunities are growing faster in offshore markets than domestically. Almost all of our respondents expect business activity to follow current seasonal trends for the near term. Most steel producers and service centers reported that volume was either flat or trending up. Shipments are being driven by energy-related, auto, and heavy equipment industries. Two contacts noted that exports are gaining strength. All of our steel contacts expect little change in business activity in the near term. District auto production showed a large increase during August on a month-over-month basis, due to production starts on the 2011 models. In terms of year-over-year comparisons, production was little changed for both domestic and foreign nameplates.

Capacity utilization is slowly rising for several manufacturers and steel producers, but it continues below pre-recession levels across the board. Inventories are balanced with incoming orders. Capital outlays remain at relatively low levels, with many of our contacts reporting that they have postponed starting projects until they are certain of a sustainable recovery. Other than volatility in steel and commodity prices, the cost of raw materials has been relatively stable. Several manufacturers announced product cost adjustments to reflect changes in steel, copper, and agricultural prices. We heard only scattered reports of companies hiring new workers, although several firms have extended work hours. Wage pressures are contained.

Real Estate. New home sales have slowed during the past six weeks, and all of our contacts expect construction to remain very sluggish going into 2011. Builders continue to point

to tight credit, foreclosures, and a large inventory of existing homes as reasons for the depressed market. Most homebuilders are intentionally keeping their spec inventories at low levels, and those who want to build are unable to obtain financing. Our contacts tell us that the entry-level price-point category is seeing the least activity, with most sales occurring in the move-up buyer categories. The list prices of new homes and construction material costs have shown little movement since our last report. Several builders said that they are increasing the use of discounting to close sales. General contractors and subcontractors continue to work with very lean crews.

Discussions with nonresidential builders showed little change in construction activity since our last report and from year-ago levels. One contractor, who noted a slow down, attributed it to seasonal factors. A few builders commented that although their backlogs have slipped, they are encouraged by the number of inquiries. New projects generally fall into the industrial category. Most of our contacts expect little change in business conditions in the near-term, with several mentioning that they are concerned about prospects for the recovery. Reports indicated stable construction material costs. New hiring by general contractors has diminished, while subcontractors are still struggling and bidding at very competitive rates.

Consumer Spending. On balance, there was little change in retail sales for the period from mid-August through mid-September, when compared to the previous 30-day period. Consumers remain price sensitive and focused on buying necessities. When given the option, they prefer private-label to premium brands. Retailers expect conservative sales growth at best, going through the holiday season. Several retailers noted modest price increases from their suppliers, which they passed through selectively to consumers. Half of our contacts reported on plans to increase capital budgets in 2011 relative to this year. Hiring will be limited to temporary holiday workers.

Auto dealers characterized new vehicle sales during August as decent, although they were slower than those seen during the peak summer season. Many sellers reported that August sales were down compared to year-ago levels due to the cash-for-clunkers program. Looking toward the year's end, dealers expect modest sales increases at best. New car inventories remain on the light side, especially for popular models. Used vehicle purchases have picked up since our last report, although supplies are tight and prices remain high. The number of financing options is growing across the District, and pricing is competitive. Still, credit standards are tight, and potential buyers often find themselves unqualified for the vehicle they want to purchase. The incremental hiring at auto stores that began in mid-summer has tapered off.

Banking. The business-lending environment remains soft; however, almost half of the bankers we spoke with noted that demand showed some signs of a pickup across industries. On

the consumer side, conventional loan demand remains very weak, with most of the activity found in indirect auto lending and home equity lines of credit. Interest rates for business and consumer credit moved by only a few basis points, with a slight bias to the downside, as competitive pressures are growing. Most of our contacts said that the demand for residential mortgage refinancing is very strong, while new-purchase mortgage originations remain at a slow pace. Residential mortgage rates continued their downward trend. Core deposits increased at almost all banks, with most of the growth occurring in nonmaturing products. Credit quality was generally characterized as either stable or deteriorating, while most reports on delinquencies indicated rates were stable or showed a modest decline. Several bankers noted that they have slowly increased their payrolls during the past few months.

Energy. Reports indicate that oil and gas output was mainly steady during the past six weeks, with output expected to remain at current levels in the near term. Companies not participating in Marcellus shale drilling, a largely untapped natural gas reserve, see the industry slowing down during the next several months due to slumping gas prices. Nonetheless, some gas producers reported increasing their capital outlays for additional drilling. Spot prices for oil are holding up. Coal production has been fairly stable since our last report, with little change in demand expected. Coal executives commented that rising government intervention into permitting and compliance issues may dampen capacity. Prices for coal were mixed but are tending to the down side. Equipment and material costs have been relatively flat. We heard scattered reports of companies hiring new workers.

Transportation. Freight transport executives reported steady to declining volume during the past six weeks. Still, bottom lines have improved for some carriers due to better pricing and higher productivity. Looking forward, carriers expect that any further volume decline will be modest, with a few anticipating a return to slow growth. Due to a drop in capacity attributed to carriers exiting the industry and the enactment of additional federal safety regulations, executives believe they will be able to successfully negotiate more favorable rates as demand rises. A few of our contacts reported rising prices for fuel. The cost of new tractors is substantially higher, while used equipment prices are falling. Capital outlays are expected to increase at a modest rate going into 2011, with most monies allocated for equipment replacement. Current hiring is due to attrition.

FIFTH DISTRICT—RICHMOND

Overview. Feedback on economic activity in the Fifth District continued to be mixed since our last report. Activity at retail and services firms was, on balance, flat to down. Manufacturing activity also edged down over the last month, while port contacts gave mixed reports. Both residential and commercial real estate activity was mostly unchanged from the weak levels of the recent past, and several contacts stated that property values had stabilized. Activity in the banking sector improved modestly, however, led by gains in business lending and home refinancing. Tourism continued to strengthen in the District, with bookings increasing over the last month. Reports on labor markets varied, with permanent hiring flat to down and temporary employment picking up slightly. Price and wage growth in the services and manufacturing sectors remained subdued since our last report.

Retail. Retail activity generally softened since our last report, although a few contacts reported an uptick in sales. Several building supply retailers reported declining sales revenues, while a central North Carolina discount department store manager described sales revenues as “steady.” A store manager in West Virginia indicated that back-to-school sales were “good, but not shooting off rockets,” and a North Carolina department store wholesaler said business had picked up. However, a North Carolina furniture store manager said that local unemployment was causing him to sell at close to cost. Indeed, big-ticket sales, particularly among automobile dealers, fell sharply in our most recent survey. One exception was a car dealer in West Virginia, who reported that sales rose modestly. Recently polled retailers noted flat or declining customer traffic, although a representative of central Virginia merchants reported a modest increase in credit card use. Price growth strengthened somewhat at retail establishments, according to our District survey, while growth in average wages was little changed.

Services. Business activity at services firms weakened overall, although several services providers reported rising revenues. Demand for construction-related services was particularly soft, according to recent survey returns. A contractor commented that he was taking jobs without overhead or profit just to hold on to his subcontractors, while awaiting a pick-up in business. According to contacts at healthcare systems that we recently polled, consumer demand was steady, while changes required by healthcare reform had mixed effects on their budgets. In contrast, several high-tech firms reported stronger demand; executives expressed concern about the stability of the economy, however. Price change at services firms remained modest over the last month, according to our latest District survey, and average wages grew slightly. A couple of services providers stated that their wage increases were directed toward keeping key employees rather than toward standard, across-the-board increases.

Manufacturing: District manufacturing edged down in September after expanding for the last seven months, with reports of sharp declines that were partially offset by pockets of strength. Several textile and apparel contacts described their business as having “no depth” and noted that their customers

expressed uncertainty about the direction of their business. A tire manufacturer reported that a backlog of orders had “tanked” and the company had cut production, noting that he did not expect any improvement for the rest of the year. A manufacturer of exterior doors for residential housing said that his firm had seen a sharp drop-off in orders and shipments over the last several months, with no indication that the trend might reverse. He anticipated that the housing and building products sector would be anemic in 2011. However, a furniture manufacturer reported an increase in orders and noted that his customers said that Labor Day sales were better than anticipated and held up throughout September. In addition, an auto parts supplier stated that orders remained strong and had increased slightly over the last month. Finally, our survey contacts reported that raw materials and finished goods prices, as well as wages, increased at a slower pace than in our last report.

Port activity in the District over the last three months was mixed, with imports generally outperforming exports. Several port officials stated that imports at their facilities were up slightly in recent months, but exports had, at best, stabilized over the last few months. However, exports of commodities were up, according to one port authority, partly due to increased grain shipments to Russia and Pakistan. Several sources stated that the peak season had come and gone, with businesses ordering earlier than in past years and now becoming cautious about building inventory until they have a better sense of underlying demand over the remainder of the year. Some softness in shipping rates was noted at several ports, but one shipper reported that utilization rates of both ships and containers were “getting back to full capacity.”

Finance. Lending activity around the District improved slightly, according to most bank contacts. Several bankers reported that the volume of new mortgage loans increased slightly in September, although one banking executive noted that most home loans went to people moving into the area. New mortgage activity at a major regional bank in the District, however, was reported as flat in recent weeks. Most bankers said that the bulk of mortgage lending was for refinancing, and one loan officer noted that refinancing activity stopped abruptly whenever the smallest uptick in mortgage rates occurred. Industrial loans were up slightly for equipment as well as inventory, according to one lender, while another banker reported very little commercial real estate lending. Several bankers stated that the competition among banks for quality loans was increasing. An officer reported that his bank had lowered rates to recapture auto dealer floor plan loans that had been lost to larger, more aggressive banks. An increase in merger and acquisition activity was widely reported. Several bankers cited examples of companies with strong balance sheets that were buying weaker competitors. Most bank officials reported improved credit quality, with a decline in both the number of foreclosures and late payments.

Real Estate. Residential real estate activity remained soft overall since our last report, despite some signs of a modest improvement. Several brokers reported that markets in their area were extremely slow, although they cited prices as generally stable. A market analyst reported that the number of houses

that were under contract in Eastern Virginia was down more than 20% from a year ago, while active listings were up in excess of 10%. Moreover, the length of time needed to close a sale was increasing sharply. In contrast, a Realtor specializing in high-end properties noted that luxury homes in his area were selling, but only among properties that had been heavily discounted. And a broker from the Baltimore area reported a slight increase recently in the number of mortgage applications.

Commercial real estate activity continued to be quite weak throughout most of the District since our last report, with most contacts reporting difficulty in obtaining loans for new projects. Several commercial Realtors indicated that financing was not only difficult, but also applications took an exceptionally long time to be processed. Moreover, local companies needed to be well funded to get loan approvals from banks. A Realtor in Central Virginia stated that both local and nationally based companies were less confident about expanding than they were a month ago. Leasing rates remained on a downward trend, according to several Realtors, with some firms trying to take advantage of lower rates to upgrade their office or retail location. In contrast to most other areas, the D.C. area showed signs of improvement, with one Realtor noting a pickup in office leasing activity. Another Realtor in that area reported that retailers were cautiously revisiting development plans that had been abandoned a year ago.

Tourism: Tourist activity strengthened since our last report. A contact along the District's coast reported solid bookings in recent weeks, with modest increases in the length of stay and the level of discretionary spending over the last month. A Myrtle Beach contact attributed the boost in visitations to increased spending on tourism promotion and infrastructure. In Virginia Beach, a hotel manager credited the gains in business at her hotel to recent renovations and increased group bookings. A contact on the Outer Banks of North Carolina indicated that discounting, coupled with a "few value items thrown in", had boosted tourism in her area and noted that restaurants and recreation venues were doing well. A manager at a mountain lodge in Virginia reported that sales of time shares rose and bookings had increased over the last month.

Labor Markets: Assessments of Fifth District labor market activity were varied. In the service sector, survey respondents reported moderate hiring at their firms. A contact at a central North Carolina healthcare system cited plans to hire a significant number of nurses and high-tech workers. Employment agencies reported somewhat stronger demand for temporary help in recent weeks, particularly in automotive and other manufacturing sectors. A branch manager of a temp agency in Raleigh, N.C., stated that manufacturing companies had openings for skilled positions, but the employee pools for those positions were weak enough to limit hiring. Moreover, survey respondents from most manufacturing industries indicated that employment generally edged down, while the average workweek flattened and wage growth slowed. Several retailers reported cutting positions in early September, but other merchants indicated that they were making no changes to employment.

SIXTH DISTRICT – ATLANTA

Summary. Reports from Sixth District business contacts indicated that the pace of economic activity remained slow in September. Retailers noted a decrease in traffic and sales. The hospitality sector improved, although some areas continued to be affected by the lingering impact of the Gulf oil spill. Realtors and homebuilders cited further weakening in home sales and increasing inventories, while the pace of nonresidential construction was soft. Manufacturers reported that new orders grew at a slower pace and production was flat. Provision of bank credit continued to be constrained and loan demand remained weak. District labor markets continued to recover slowly, although many businesses relied on increased hours for existing staff and expanded their use of temporary hires rather than adding permanent employees. Some transportation and material prices rose slightly, but firms continued to report limited pass through to consumers.

Consumer Spending and Tourism. Most District merchants reported that traffic and sales decreased in September and that they are intentionally keeping inventory levels low. Contacts noted that low-end products and apparel were strong sellers, however, and the outlook among retailers improved only modestly from previous reports. District automobile dealers indicated that vehicle sales were ahead of year-ago levels.

Tourism activity across much of the District improved and the outlook for the remainder of the year was positive. Cruise bookings and pricing increased and contacts reported that discretionary spending on board rose. The impact of summer cancellations continued to be felt in many Gulf Coast destinations. However, the losses experienced in these areas have been largely offset by an increase in activity in Northeast Florida, Georgia, and Tennessee.

Real Estate and Construction. Most District residential real estate contacts reported that home sales weakened further in September, although several Florida brokers indicated that declines moderated. Many builders and Realtors noted that potential buyers remained on the sidelines and that acquiring mortgage financing had become more difficult recently. Cash buyers, particularly in Florida markets where price declines have been pronounced, continued to purchase homes at a strong pace. New home construction softened further from low levels. Brokers indicated that existing home listing inventories

continued to rise on a year-over-year basis. Builders reported that new inventories remained below the year-earlier level, but were rising. Both brokers and homebuilders reported persistent downward pressure on home prices. Homebuilders, in particular, were concerned about the number of foreclosed and bank-owned properties coming to market. The outlook among contacts regarding sales over the next several months was weak.

Nonresidential construction activity remained soft across the District. Contractors noted that the pace of commercial development was below the year-earlier level and backlogs remained low. Contacts continued to report high vacancy rates and downward pressures on rents. The outlook for the rest of the year remained negative.

Manufacturing and Transportation. District manufacturers indicated that the growth of new orders slowed notably and that production was flat in September compared to the previous month. However, many respondents planned modest production increases in the short-term. District transportation contacts noted an overall decrease in domestic freight demand; however, this was countered by an increase in international shipments. Rail companies reported positive but slower growth of shipments of automobiles and industrial goods.

Banking and Finance. District banking conditions remained weak as bank profitability continued to be challenged by elevated loan losses and high levels of noncurrent loans. Loan demand also remained soft. Business contacts continued to indicate an expansion of trade credit to create and extend lines of credit outside of the traditional banking infrastructure.

Employment and Prices. District labor markets continued to recover in September, albeit slowly. Contacts reported that they remain reluctant to hire additional full-time, permanent employees because of the uncertain outlook regarding future sales and orders. Many firms continued to note a strong preference for increasing existing staff hours and using part-time or temporary staff rather than hiring full-time staff. Firms that were hiring noted they were being very deliberate in order to get the best possible candidate from a large applicant pool.

District contacts reported that firms were resisting passing higher input costs through to consumers given the ongoing softness in sales. As a result, margins remained

very thin. A number of manufacturers indicated that rising costs of materials and employee benefits were likely to be passed on to customers over the next 12 months.

Natural Resources and Agriculture. Regional oil production continued to rise and the Gulf of Mexico crude inventories remained near the top of their average range for this time of year. Local gasoline stocks have been declining since mid-August, as large surpluses were drawn down somewhat. Following the capping of the Deepwater Horizon well in the Gulf of Mexico, clean up and oil recovery efforts continued with ongoing environmental testing for contaminants in the water and in local fish populations.

District crops were troubled by high temperatures and dry weather in September that resulted in early harvesting. Soil moisture levels were reported as extremely low in areas of Alabama, Mississippi, and Tennessee. Regional cotton plantings were much higher than a year earlier.

SEVENTH DISTRICT—CHICAGO

Summary. The pace of economic activity in the Seventh District picked up moderately in September. Contacts were generally more optimistic about the outlook for the remainder of the year and the beginning of 2011. Manufacturing production increased, and construction activity improved slightly. Consumer spending continued at a steady pace and business spending increased. Credit conditions continued to gradually improve. Price and wage pressures were moderate, while agricultural prices increased on balance.

Consumer spending. The pace of consumer spending was little changed from the previous reporting period. Contacts indicated that consumers were slowly regaining confidence, although they remain very price-conscious. As such, promotions and sales persisted as the primary driver of traffic in stores and showrooms. Retail sales excluding autos in September were nearly on par with the August sales pace. Clothing items continued to sell well, as did electronics and appliances; but furniture sales were again weak. Auto sales held steady even as fewer incentives were offered and access to credit continued to slowly improve.

Business spending. Business spending increased in September. Capital spending rose as recent tax accounting changes pulled forward demand before the year's end. Contacts indicated that spending was heavily concentrated in replacement of older equipment and other efficiency improving investments. While less widespread, new investments in capacity, research and development, and employee training were also reported. In contrast, inventory rebuilding slowed. Both manufacturers and retailers reported comfortable levels of inventories in September, even though they remain relatively lean historically. The pace of hiring continued to be slow, but engineering, information technology, and healthcare were exceptions to this trend. Manufacturers' were reluctant to add permanent employees, continuing to use temporary hires instead. In addition, the manufacturing workweek leveled off, as firms pulled back on overtime. Contacts also noted that state and local government employment was sharply declining given the budgetary constraints faced by several District states and their local municipalities.

Construction/real estate. Construction activity improved slightly in September. With housing inventory still elevated, residential building was minimal, particularly for multifamily properties. A contact noted, however, that a few large builders had begun to rebuild their inventory of single-family homes after a recent uptick in contract signings. Attractive pricing led to higher showroom traffic, but contacts indicated that the limited availability of conventional mortgage

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financing remained a constraint for potential buyers. Private nonresidential construction remained subdued, particularly for office and retail buildings. However, rising vacancy rates leveled out in many areas of the District, and contacts reported small improvements in demand for large industrial and small retail facilities. Public infrastructure construction continued to expand.

Manufacturing. Manufacturing production increased in September, refreshing from the late summer pause. Several metals manufacturers reported that September sales were the best so far this year. Power generation, mining, and medical equipment manufacturers also reported an increase in orders. In addition, export activity continued to be robust with slower growth in developing countries in Asia and South America offset by strengthening demand from Europe. The automotive and heavy equipment sectors remained strong sources of growth. In contrast, a manufacturer of household appliances noted a reduction in fourth quarter production, and capacity utilization in the steel industry edged lower. Although contacts in some industries indicated that new orders and order backlogs had eased as inventory rebuilding slowed going into early October, manufacturers in general expressed a very positive outlook for the remainder of 2010 and early 2011.

Banking/finance. Credit conditions continued to gradually improve in September. Contacts indicated that the corporate financing environment remains very favorable, but the availability of credit for small businesses remained a source of concern for some. Business loan demand was steady, driven mostly by refinancing and merger and acquisition activity. Recent tax law changes and increasing pressure from shareholders to productively employ the large amounts of cash on firm balance sheets were seen as contributing to the latter. Furthermore, a contact noted that private equity funds that are required to invest funds by year-end or return them to investors were another likely factor. Investment demand for distressed commercial properties remained strong. Moreover, limited improvement in the availability of bank loans for commercial real estate was noted, although it was concentrated among a few banks.

Prices/costs. Price and wage pressures were moderate in September. Retailers reported wholesale price increases were becoming more widespread. Prices also moved higher for industrial metals like copper, aluminum, zinc, and gold. Shortages of silicone and copper contributed to the increase in industrial metal prices. The depreciation of the dollar was cited as one of the primary drivers of higher demand for gold. Energy costs, in contrast, were steady with natural gas prices at historically low levels. Limited pricing power continued to constrain pass-through of cost pressures

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to downstream prices. Wage pressures again increased only modestly on balance, although some contacts highlighted large expected increases in the cost of healthcare for employees.

Agriculture. The District harvest started early and progressed rapidly, although parts of Iowa and Wisconsin had a slower harvest due to heavy rains. Corn yields varied widely, sometimes even within the same field. The quality of the corn crop was, however, higher than a year ago. Soybean yields were reported as above-average in most of the District, with soybean disease issues in Iowa appearing to be limited in scope. Corn and soybean prices were above the levels of a year ago. Contacts indicated that farmers were selling soybeans, but holding on to newly harvested corn in the hope of even higher prices. Prices for milk, hogs, and cattle remained higher than last year, helping offset a sudden increase in feed costs for livestock. Fertilizer costs also increased, but drying costs for corn decreased substantially from the previous year.

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Eighth District - St. Louis

Summary

Economic activity in the Eighth District has expanded modestly since our previous report. Manufacturing activity increased, on balance, as did activity in the services sector. Residential real estate market conditions were mixed. Although commercial and industrial real estate market conditions remained soft, there were reports of increased activity in some areas. Overall lending activity at a sample of small and mid-sized banks in the District declined in the three-month period from mid-June to mid-September.

Manufacturing and Other Business Activity

Manufacturing activity has continued to increase since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to close plants or reduce operations. Firms in the detergent, frozen foods, transformer, plastic products, motor vehicle parts, and primary metal manufacturing industries reported plans to expand existing operations and hire new employees. Contacts in the construction machinery, electronic component, and wood product manufacturing industries reported plans to open new facilities in the District as well as hire new employees. In contrast, firms in the appliance, tobacco, chemical, and furniture manufacturing industries announced plans to decrease operations and lay off workers.

The District's services sector has also continued to improve since our previous report. Firms in the restaurant, automotive repair, air transportation support, and social services industries opened new facilities in the District and hired new employees. In contrast, contacts in the business support services, hotel, and gambling industries reported plans to decrease operations and lay off workers. Sales of new automobiles were down compared with the same

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time last year, while used automobiles have shown stronger sales. General retail contacts reported that sales were flat over the reporting period.

Real Estate and Construction

Home sales were mixed throughout the Eighth District. Compared with the same period in 2009, August 2010 year-to-date home sales were down 4 percent in St. Louis and 2 percent in Memphis. Over the same period, however, year-to-date home sales increased 14 percent in Louisville and 2 percent in Little Rock. Residential construction continued to improve throughout the District. August 2010 year-to-date single-family housing permits were up in most District metro areas compared with the same period in 2009. Permits increased 14 percent in Little Rock, 15 percent in St. Louis, and 16 percent in Memphis. In contrast, single-family housing permits decreased 4 percent in Louisville.

Activity in commercial real estate and construction remained slow throughout most of the District. Contacts in Louisville reported that the office market remained soft and there is low demand for commercial real estate loans. While a contact in central Arkansas reported some improvement in commercial property sales, a contact in northeast Arkansas noted that commercial construction remains at a virtual standstill. Industrial real estate and construction was mixed throughout the District, with some regions showing signs of improvement. A contact in west Tennessee noted industrial development projects that are expected to aid business activity in the area. A contact in Evansville, Indiana, reported that there seems to be more “quoting” on major construction, but no real jobs are starting. In contrast, contacts in the west Kentucky region reported construction projects primarily related to health and hospitality. Contacts in St. Louis noted limited industrial construction projects.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 1.8 percent in the three-month period from mid-June to mid-September. Real estate lending, which accounts for 73.2 percent of total loans, decreased 2.2 percent. Commercial and industrial loans, accounting for 16.1 percent of total loans, decreased 1.6 percent. Loans to individuals, accounting for 5.1 percent of loans, decreased 7.9 percent. All other loans decreased 8.5 percent and accounted for 5.6 percent of total loans. Over this period, total deposits increased 0.3 percent.

Agriculture and Natural Resources

Recent dry weather throughout most of the District provided excellent conditions for harvesting crops, although many parts of the District have subsequently faced moderate or severe drought conditions. At the beginning of October, the overall corn, soybean, sorghum, cotton, and rice harvests were ahead of their normal paces by 28 percent to 137 percent. Since our previous report, overall crop conditions deteriorated slightly for corn but remained similar or improved slightly for soybeans, cotton, and sorghum. Yield estimates for corn and tobacco in all District states that grow these crops and for soybeans, cotton, and sorghum in most District states that grow these crops declined from August to September. The remaining yield estimates, including those for rice, stayed the same or increased slightly.

NINTH DISTRICT--MINNEAPOLIS

Since the last report, economic growth in the Ninth District has picked up somewhat. Consumer spending, tourism, services, manufacturing, energy, and mining saw increases. Activity in the commercial and residential real estate sectors decreased, while commercial construction remained weak. Meanwhile, residential construction was mixed and progress in the agriculture sector slowed. Labor markets showed some signs of picking up; however, overall weakness continued. Wage increases were moderate, and overall prices remained relatively level.

Consumer Spending and Tourism

Consumer spending grew moderately. A major Minneapolis-based retailer reported that same-store sales in September were up about 1 percent compared with a year earlier. September traffic at a North Dakota mall was up over 10 percent from a year ago, which was a surprise following a slight decrease in August, according to the mall manager. Cooler fall weather seemed to attract shoppers. August sales were up over 10 percent at a Montana mall after a few consecutive months of small gains. August sales were up slightly from a year ago at a Minneapolis-St. Paul area mall. A restaurant chain noted that sales were up 3 percent during August and September from a year earlier. However, a Minnesota-based clothing retailer noted slow uptake of new merchandise offerings; it expects low single-digit increases in same-store sales over the next few months. September car sales in Montana were mixed, according to a representative of an auto dealers association.

Tourism activity was up from a year ago. Rooms sold at Montana hotels were up almost 11 percent in August from a year earlier, according to a state tourism research organization. A tourism official in the Upper Peninsula of Michigan noted that the summer season finished well ahead of a year ago and that fall traffic seems to be holding up. Minnesota lodging and campground operators noted increases in summer business from a year earlier and were more optimistic for fall tourism than a year ago, according to the results of a state survey. In addition, attendance at the Minnesota State Fair almost reached last year's record high.

Construction and Real Estate

Commercial construction was slow. A District manufacturer of commercial building materials said demand was slowing. The value of nonresidential permits in Sioux Falls,

S.D., fell dramatically in September from a year earlier; in contrast, September commercial permits increased substantially in Rochester, Minn. Residential construction was mixed. The value of September residential permits increased 70 percent and 40 percent, respectively, in Fargo, N.D., and the Minneapolis-St. Paul area from a year ago. Meanwhile, residential permits fell 78 percent and 38 percent in value in Rochester and Sioux Falls, respectively.

Commercial real estate remained weak. In Minneapolis-St. Paul, about 20 percent of office space and 8 percent of retail space sat vacant in August. A commercial real estate broker in Fargo, N.D., said activity there was flat at low levels. Residential construction showed signs of stagnation. August closed home sales in Minneapolis-St. Paul fell almost 9 percent from a year earlier while prices decreased nearly 2 percent. In contrast, residential real estate contacts in Bismarck, N.D., described market activity there as busy.

Services

Activity in the professional business services sector increased since the last report. Appraisers and title companies reported continued strength during September. “We are swamped with great projects,” commented a design and advertising firm. Information technology consulting firms noted solid interest from corporate clients. Contacts from firms that advise small businesses on mergers and sales noted less-than-robust growth during the past month. Some architects reported a surprising increase in activity: “We’ve weathered the storm and now find ourselves in calm waters,” commented a large architectural firm.

Manufacturing

Manufacturing output was up since the last report. A September survey of purchasing managers by Creighton University (Omaha, Neb.) showed strong increases in manufacturing activity in Minnesota and South Dakota, and slight increases in North Dakota. In Montana, a food processing company is expanding operations and a jet engine plant plans to build a facility. In Minnesota, a fishing tackle company recently experienced a big pickup in demand, a metal fabricator saw increased orders, a dental part maker noted increased sales and a bed manufacturer’s recent sales were up and higher than anticipated.

Energy and Mining

Activity in the energy and mining sectors increased since the last report. Late-September oil exploration increased slightly from late-August. New wind energy projects are planned in the Dakotas. Most District mines were operating near capacity. Iron ore production in Minnesota increased in August compared with July. A Montana copper miner noted that “we have been doing very well,” and the short-term outlook was very positive.

Agriculture

Agricultural activity slowed due to wet weather. District crops were relatively large and in good condition. However, the cereal grains harvest in Montana was behind the pace of last year. Widespread wet conditions delayed some farmers from harvesting their bountiful crops. In addition, large amounts of rain in late September flooded rivers and saturated farmland from eastern South Dakota through western Wisconsin. Meanwhile, prices remained robust for many District agricultural products.

Employment, Wages and Prices

Labor markets showed some signs of picking up; however, overall weakness continued. A department store chain with locations in Minnesota noted that it expects to increase seasonal hiring, while another large retailer will soon open a store in Minnesota with plans to hire about 130 employees. A manufacturer in northwestern Wisconsin noted an increase in hiring due to stronger orders. Minnesota initial claims for unemployment insurance were down 20 percent in September compared with a year earlier. According to respondents to a recent St. Cloud (Minn.) Area Business Outlook Survey, 19 percent expect to increase staffing levels at their companies over the next six months while 20 percent expect to decrease staff. In last year’s survey, 15 percent expected to boost hiring while 24 percent anticipated decreases. In contrast, a Minneapolis-area hospital recently announced plans to lay off 200 employees.

Wage increases remained modest. For example, a county government in the Minneapolis-St. Paul area will award most nonunion employees a 1 percent raise.

Overall prices remained level. Minnesota gasoline prices were relatively stable since the last report. Residential natural gas prices were only about 5 percent higher than a year ago. However, scrap metal and plastic resin prices increased since the last report.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy posted moderate but uneven growth in the September reporting period. Restaurants, hotels, and general retailers reported a rebound in activity but auto sales remained soft. Manufacturing activity rebounded but did not translate into additional factory hiring. Residential and commercial real estate markets weakened further. District banks reported stable banking conditions overall with some deterioration in loan quality. Continued expansion in the energy sector supported increased hiring and capital spending. In agriculture, favorable crop growing conditions and attractive profit margins spurred capital spending and land price gains. Despite higher input prices, selling prices in most retail sectors remained unchanged, and little evidence of wage pressures was reported in District labor markets.

Consumer Spending. District retailers reported stronger than expected sales in September and indicated sales were higher relative to last year. Retailers remained optimistic that sales would continue to increase in the coming quarter but expected softness in selling prices. Restaurants reported much higher sales than a year ago and anticipated future sales gains going forward. The average check amount at restaurants remained flat, although menu prices increased. Automobile sales weakened considerably from the last reporting period but remained slightly above year-ago levels. Auto inventories continued to decline and dealers expressed satisfaction with current inventory levels. The lodging industry noted improved hotel occupancy rates with mountain resort bookings above year-ago rates. Some hoteliers indicated that the occupancy bounce was likely seasonal in nature but reported improved expectations for both occupancy and room rates.

Manufacturing and Other Business Activity. The Tenth District's manufacturing sector reported a mild rebound following softness in the prior reporting period. Factory operators reported expanded production, shipments, and new orders, and firms remained optimistic about future production levels. Despite increased activity, few firms reported planned increases in capital spending or hiring in the coming six months. The rebound in activity produced an increase in backlogs and raised expectations for future backlogs. Some improvement was reported in orders for export markets, though expectations for further expansion remained modest. Inventories of both raw materials and finished goods were reported as in balance with no planned changes from existing levels. The strength reported in

manufacturing did not spillover to transportation firms as contacts noted unexpected weakness in activity. Some high-tech firms reported sales growth, but expectations for improvement in the coming two quarters were subdued. Capital spending activity by high-tech firms continued its upward trend but firms reported somewhat diminished expectations for the upcoming six months.

Real Estate and Construction. Residential and commercial real estate activity continued to decline. Residential respondents reported decreased sales volumes and home prices in the District. However, some movement was noted in upper-end home sales. Housing inventories continued to increase and were expected to rise further in coming months. In contrast, residential builders reported increased housing starts, traffic, and new home prices. Mortgage refinancing activity continued to expand while home purchase loans decreased. Construction supply firms noted anemic conditions, with expectations of continued decline. Commercial real estate respondents reported no vacancy rate changes, but sales, prices, rents, completions, and absorptions were lower, with little to no expectation of conditions improving in the next quarter. The majority of real estate and construction respondents noted economic uncertainty among customers as a drag on any recovery.

Banking. Bankers reported steady loan demand, stable deposits, and an unchanged outlook for loan quality. Consistent with the last several reports, overall loan demand was little changed. Demand edged up for commercial and industrial loans and residential real estate loans but decreased for consumer installment loans. Demand for commercial real estate loans was stable. Credit standards were unchanged in all major loan categories, after tightening modestly on commercial real estate loans in the last two reports. Somewhat more bankers reported deterioration in loan quality from one year ago than reported an improvement. However, for the fourth straight report, respondents expected no change in loan quality over the next six months. Deposits were basically flat, continuing the pattern since late last year.

Energy. Energy industry activity continued to expand District-wide in the latest reporting period. Oil and gas respondents reported sharply increased activity relative to both month-ago and year-ago levels. The number of active drilling rigs expanded but continued to lag rig deployments nationally. District exploration remained focused on crude oil and natural gas liquids, especially in New Mexico and Oklahoma. Gas rig counts expanded in Colorado but contracted in Oklahoma. Oil and gas firms reported equipment shortages and some difficulty

finding qualified workers, especially in rural areas. A few firms reported limited access to capital and rising operating costs as constraints on drilling activity. Wyoming coal production expanded rapidly since the last report, with train car loadings reaching a yearly high in the Powder River Basin. Anticipated long-run demand from international nuclear power projects prompted expansion in District uranium production, despite continued low market prices.

Agriculture. Agricultural conditions remained favorable since the last reporting period. The majority of the corn and soybean crops were rated in good to excellent condition with expectations of bumper yields. The fall harvest was on schedule and winter wheat planting was progressing well. Crop prices strengthened further, boosting income expectations for District farmers. Higher feed costs, however, trimmed incomes for livestock producers. Stronger profits for crop producers spurred higher cropland values and a rebound in capital spending on agricultural equipment and grain storage facilities. Repayment rates on farm loans improved with higher incomes, and lenders reported a drop in the number of loan renewals and extensions.

Wages and Prices. Raw materials prices increased, although selling prices and wages remained flat. District manufacturers reported that raw materials prices remained above year-ago levels and expected the upward trend to extend into the next six months. Selling prices in most sectors remained flat since the last reporting period but were generally below a year ago. Menu prices at restaurants increased modestly from month- and year-ago levels, and respondents expected prices to continue to increase, pressured by rising food costs. Firms continued to report little evidence of wage pressures across District labor markets and did not expect pressure in the near future.

ELEVENTH DISTRICT—DALLAS

Overview The Eleventh District economy expanded at a more subdued pace over the past six weeks than during the previous reporting period. The energy, transportation services and staffing industries which have been a source of strength in the recovery, saw positive but slower growth. Business activity was unchanged in most other industries, although retailers said sales improved and financial firms said lending activity picked up slightly. Demand continued to be strong for petrochemical products, and agricultural conditions remained favorable. Firms' outlooks are positive, but contacts say uncertainty about economic growth, regulatory reform and public policy has introduced more caution.

Prices Selling prices held steady at most responding firms, but there were some reports of increases. Small parcel shipping prices rose slightly while large parcel shipping prices increased sharply, according to contacts. Prices for some petrochemicals rose during the reporting period, and agricultural respondents said commodity prices increased across the board. Food producers were considering price increases because of rising costs for dairy and sugar, and retailers noted higher costs for cotton, corn, wheat, milk and cheese.

After holding steady in a tight range between \$74 and \$76 dollars per barrel for most of the reporting period, the price of crude oil rose to over \$80 in early October on stronger demand from China and a weaker dollar. Retail gasoline and diesel prices held steady since the last report, and natural gas prices remain under \$4 per Mcf.

Labor Market Most responding firms reported steady employment levels, and some noted slight hiring activity. Contacts in the airline, primary metals, transportation manufacturing and auto sales industries said they had added workers. Staffing firms reported slower growth in demand for their services, although contacts said direct hire fees for IT and professional workers had risen. Minor layoffs were reported by some construction-related manufacturers and one legal firm. Wage pressures were minimal, although higher wages were reported by airlines and some shipping and transportation manufacturing firms.

Manufacturing Most construction-related producers, including cement, lumber and fabricated metals firms, said orders remained flat over the past six weeks. Contacts believe soft demand is related to uncertainty about the economic and political environment. One glass contact said sales rose due to a pickup in apartment construction. Primary metals producers noted a slight uptick in business. Some contacts are selling to new markets, such as solar panel production. Others indicated that remodeling activity had boosted sales. Despite the increase, contacts believe the industry has a long road ahead.

Manufacturers of high-tech products said that sales and orders were growing at the same or slightly slower pace since the last report. Most respondents said inventories are below or at desired levels.

Sales are expected to continue to grow at a moderate pace over the next six months, but there was increased uncertainty in respondents' outlooks.

Paper manufactures said orders were slightly down, in part because customers were managing inventories more tightly. Contacts expect sales growth to be anemic through year-end. Food producers said demand growth held steady. Sales growth of premium items had picked up, but orders for value items weakened. Most transportation manufacturers noted steady demand.

Petrochemical producers noted strong domestic demand for most products. Export growth continued to slow, reflecting higher prices, although there were reports of renewed Chinese interest in some products. Domestic orders for PVC used in commercial construction were weak, but exports were stronger, according to contacts. Refiners said conditions continued to weaken. Both margins and operating rates fell since the last report, and gasoline and distillate inventories have risen against seasonal expectations.

Retail Back-to-school spending led to a pickup in sales over the reporting period, however customers remain extremely price conscious. Consumers continue to focus on non-discretionary goods, but contacts noted there was an uptick in spending on medium-priced household goods. Eleventh District sales trended roughly in line with the nation during the reporting period. Contacts expressed caution in their outlooks and said competition remains fierce.

Automobile sales were steady after accounting for seasonality. Inventories are a little tight, notably for large SUVs. Used car prices have risen, reflecting elevated demand and short supply. Expectations are for continued slow growth in sales.

Services Staffing firms reported stagnant demand over the reporting period. Business is still at good levels, but contacts say firms are eliminating some previous positions or finding other ways to fill vacant jobs. Despite the slowdown, contacts report that demand is coming from a wide-range of industries, including light industrial, manufacturing, IT, and call centers. Clerical workers remain in high demand. Near-term outlooks remain optimistic, but contacts are more uncertain about the longer term.

Accounting firms said business had improved modestly, as more merger and acquisition work has materialized since the last report. Contacts also noted a pickup in financial consulting and tax-related work going into the fall season. Demand for legal services remains soft. The only area of activity is mergers and acquisitions. Legal and accounting firms say they are in a better position than last year, but they remain cautious in their outlooks.

Transportation services demand was positive, but the pace was somewhat slower over the past six weeks. Contacts said intermodal cargo volumes increased minimally, but that the increases were broad based across industries. Railroad contacts noted moderate gains in volumes overall, although shipments of grain, non-metallic minerals, chemicals and petroleum products increased at a strong pace. International

container trade volumes flattened over the past month, but are up from a year ago. Firms that ship small parcel goods said volumes dipped in September after several months of positive growth. Airline traffic was steady to slightly down seasonally over the past six weeks. Contacts noted that conditions are much better than a year ago, thanks in part to stronger business travel. Transportation service respondents said uncertainty was adding caution to their outlooks. Most expect stable conditions in the near term, with a modest pickup in activity next year.

Construction and Real Estate New home sales stabilized somewhat after a significant drop off following the expiration of the homebuyer tax credit. Entry-level builders have pulled back on starts considerably after the run-up earlier in the year, but contacts say builders in higher price points are seeing some successful sales. Rising buyer cancellations were cited as a problem, however. Contacts in the new and existing home sector said demand will likely remain subdued in the near term because of tighter credit standards and uncertainty about changes in tax policy. Contacts said this uncertainty has led more potential buyers to rent, which has led to strong apartment leasing activity.

Commercial construction remains at very low levels. There is no speculative construction occurring, but hospital and education projects are keeping some contractors busy. Office and industrial leasing activity appears to have picked up. Contacts said very low rents were inducing firms to make new deals. Contacts said property sales continue to rise from very low levels, and investor interest remains high, especially for distressed sales.

Financial Services Financial firms reported some pickup in lending activity. Consumer loan demand rose substantially, in large part due to growth in auto loans. Home mortgage activity picked up slightly as well. Despite high mortgage delinquencies contacts said they are not concerned with outstanding credit quality overall. Financial contacts noted increased pressure to price loans more aggressively and some have even begun altering loan structure somewhat, although overall underwriting standards remain very strict. Larger banks are reportedly seeing stronger loan demand than regional and community banks. There were reports of smaller banks passing up good owner-occupied real estate deals because of stricter enforcement of regulatory guidelines on commercial real estate.

Energy Drilling activity rose at a slower pace over the past six weeks, in part due to a decline in natural gas-directed activity. The U.S. rig count edged up by 8 rigs and 41 percent of U.S. activity is now directed to oil. Eleventh District rig activity dipped slightly although contacts said drilling continues to increase in Texas' Permian Basin. Drilling services companies said business remains strong. Outlooks were optimistic, assuming a soft landing for the natural gas drilling industry. Contacts noted strong domestic land-based drilling and improved international demand has cushioned losses sustained in the Gulf of Mexico.

Agriculture Overall agricultural conditions in the District remain very positive. Tropical storm Hermine brought substantial rainfall to Texas in early September, improving soil moisture in most parts of the state but causing flood damage in some areas. Above-average growing conditions resulted in good yields, and moisture conditions are favorable going into fall planting. Demand for U.S. agricultural products remains strong and commodity prices have gone up across the board, boosting optimism among producers. Cotton will be a boon for Texas agriculture this year, as a potentially record-setting crop is matched with near record-high market prices.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District appeared to post further modest growth during the reporting period of September through early October, although conditions in many sectors remained weak. Price increases for final goods and services were quite limited, and upward pressures on wages were virtually nonexistent. Demand for retail items and services continued to strengthen somewhat, but sales remained lackluster overall. Manufacturing activity in the District firmed a bit further on balance. Sales were robust for agricultural products, while demand was largely stable for energy resources. Activity in District housing markets remained sluggish, and demand for commercial real estate stayed weak. Contacts from financial institutions reported largely stable lending activity.

Wages and Prices

Upward price pressures were very limited on net during the reporting period. Commodity prices changed little in general, with the exceptions of continued increases in grain prices and rising prices for metals, particularly copper. Contacts pointed to very limited pricing power for most retail items and service categories, as final prices continued to be held down by weak demand and extensive competition.

Upward wage pressures were largely absent, although reports pointed to further increases in the costs of employee benefits, particularly health care. High unemployment and limited demand for new employees held down compensation gains in most regions and sectors. Contacts in most sectors expect that ongoing productivity gains and cost efficiencies will largely offset the need for staffing increases in the near term. However, a few contacts noted that some firms have reached the limits of productivity gains from current staff and will need to add workers as product demand improves.

Retail Trade and Services

Retail sales remained sluggish but improved somewhat on balance. Both traditional department stores and discount retail chains reported modest improvements in sales, although somewhat elevated inventories were noted; moderately priced items such as selected home and garden products reportedly saw the strongest gains. By contrast, retailers of major appliances and furniture reported a further

slowdown in activity and expressed pessimism for a reversal over the remainder of the calendar year.

Grocery sales were characterized as largely flat, with consumers focused on bargains, and grocers do not anticipate any change in customer buying patterns for the foreseeable future. Sales of new domestic and imported automobiles improved a bit, with dealers citing replacement of broken-down or leased vehicles as key motivating factors for purchases.

Demand for services continued to improve modestly. Sales grew for providers of technology services, spurred in part by business investments to enhance production efficiency. Contacts in the restaurant and food services industry noted continued slight gains in activity. Demand for professional, media, and entertainment services held largely steady overall. Providers of energy services reported increased deliveries to businesses and households, and activity picked up somewhat for providers of trucking services. Conditions in the District's travel and tourism sector improved further. Visitor volumes and hotel occupancy rates rose in several of the District's major markets, spurred largely by significant growth in business travel and convention activity.

Manufacturing

District manufacturing activity expanded further on balance during the reporting period of September through early October. For manufacturers of semiconductors and other technology products, demand continued to grow, although the pace of growth slowed a bit and inventories rose slightly. Extensive order backlogs continued to keep production rates at or near capacity limits for manufacturers of commercial aircraft and parts. Demand firmed further for metal fabricators, although capacity utilization remained well below normal. Activity at petroleum refineries slowed a bit and inventories rose, as seasonal declines in domestic demand were only partly offset by increased overseas demand. Conditions in the wood products industry remained depressed.

Agriculture and Resource-related Industries

Sales of agricultural products continued at a brisk pace, and demand appeared to hold steady on net for natural resources used for energy production. Final sales and orders for most types of agricultural products continued to be robust, and input costs stayed largely stable. Unfavorable weather conditions

and consequent supply restrictions for overseas producers have boosted sales for domestic producers of corn and food grains. Demand for crude oil fell slightly, largely as a result of the normal end-of-summer lull, but extraction activity for natural gas rose further.

Real Estate and Construction

Housing demand in the District appeared to be little changed from the previous reporting period, and demand for commercial real estate remained largely stable at very low levels. The pace of home sales continued to be mixed across areas but mostly unchanged on balance. In response to sluggish sales, new home construction has stayed quite subdued, although contacts reported slightly expanded activity for home repairs and remodeling. Conditions in commercial real estate markets generally remained weak, as vacancy rates stayed at very high levels in many parts of the District. Although slight declines in total space availability were reported for some areas, tenants continued to receive rent concessions and other favorable terms in many cases.

Financial Institutions

Reports from District banking contacts indicated that loan demand was largely unchanged compared with the prior reporting period. Demand for commercial and industrial loans continued to be restrained by businesses' cautious approach to capital spending and desire to deleverage. Consumer loan demand also remained weak overall, although contacts noted an uptick in demand for nonconforming mortgage loans. While lending standards stayed relatively restrictive for business and consumer lending, the reports suggested some loosening of credit standards for select groups of borrowers. Contacts also pointed to an uptick in financing for corporate acquisitions as well as further modest expansion in IPO activity.