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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

October 2011

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicate that overall economic activity continued to expand in September, although many Districts described the pace of growth as “modest” or “slight” and contacts generally noted weaker or less certain outlooks for business conditions. The reports suggest that consumer spending was up slightly in most Districts, with auto sales and tourism leading the way in several of them. Business spending increased somewhat, particularly for construction and mining equipment and auto dealer inventories, but many Districts noted restraint in hiring and capital spending plans. By sector, manufacturing and transportation activity was reported to have increased on balance. A few Districts also reported slight improvements in construction and real estate activity; nonetheless, overall conditions for both residential and commercial real estate remained weak. Districts reporting on nonfinancial services cited mixed results with activity varying widely by industry. Loan demand by and large moved lower, with the exception of an increase in mortgage refinancing in many Districts. Crop conditions at harvest were generally less favorable than a year ago. In contrast, energy and mining activity continued to strengthen in several Districts, with the exception of some storm-related slowdowns in the Gulf of Mexico. Cost pressures eased in the majority of Districts, though there was some further pass-through of earlier increases to downstream prices. Wage pressures remained subdued outside of a few exceptions in which firms noted having difficulty finding appropriately skilled workers.

Consumer Spending and Tourism. Consumer spending was up slightly in September. The majority of Districts reported increases in auto sales, with the largest improvements in San Francisco and New York. Several Districts noted a greater availability of new vehicles as the supply disruptions that had plagued auto dealerships in the aftermath of the Japanese disaster subsided. Contacts in the Cleveland, New York, Philadelphia, and Dallas Districts indicated that demand for used cars remained high and that some models were still scarce. A large number of Districts reported that non-auto retail sales were flat to down in September; but a few, such as Philadelphia, Richmond, and Dallas noted an increase in customer traffic late in the month and into early October. Back-to-school sales were described as being fairly strong in New York and

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satisfactory in Richmond. In addition, Boston, Chicago, Kansas City, and Dallas cited some strength in the sales of big-ticket or luxury items, while Minneapolis and Chicago noted that more consumers were trading down to value products at grocery stores.

Tourism was generally higher in those Districts reporting on the sector. Contacts in New York noted that, despite the negative impact of Hurricane Irene, Broadway and hotel revenues continued to rise. Richmond reported substantial damage from Hurricane Irene to some tourist destinations that were subsequently forced to close for repairs, but tourism remained vibrant in other areas. Boston, Atlanta, and Minneapolis also cited increases in tourism, with hospitality contacts in Atlanta expecting a robust holiday season. Tourism results were mixed across various destinations in the San Francisco district.

Business Spending. Business spending increased somewhat from the previous report. However, contacts in a number of Districts reported that a weaker and more uncertain economic outlook had increased caution and was weighing on future spending plans. Philadelphia, Richmond, and Chicago indicated that many retailers were reluctant to build inventories ahead of the holiday season, pointing to recent declines in consumer confidence. Auto dealers were an exception, as they continued to replenish inventories that ran low in the aftermath of the production disruptions caused by the Japanese disaster. Capital spending continued as planned in most Districts. Respondents in Cleveland, Atlanta, and Chicago noted increased purchases of equipment in the manufacturing, mining, and transportation industries. Boston and Minneapolis indicated that some manufacturers planned to expand capacity either through mergers and acquisitions or the building of additional facilities. Atlanta cited a pick-up in corporate expansion and relocation interest, and Chicago noted an increase in mergers and acquisitions activity among middle-market firms.

Nonfinancial Services. Reports regarding nonfinancial services were mixed in September. Richmond noted slower overall activity, and St. Louis cited reduced demand for telecommunications, media, and education services. Demand for accounting and legal services was reported to have been unchanged in both Dallas and San Francisco. On the positive side, contacts in St. Louis reported that demand for business support services increased, and Boston reported strong business conditions for economic consulting firms involved with litigation work and advertising firms helping to market financial services. In addition, San Francisco noted continued growth in demand for technology services, Minneapolis noted an increase in activity in

software and engineering, and Philadelphia cited some growth in logistics. Staffing at nonfinancial service-sector firms was reported to have been up slightly in Richmond, but growth slowed in Chicago and Philadelphia reported flat activity.

Manufacturing and Transportation. Contacts indicated that manufacturing and transportation activity increased since the last report in most Districts. A large number of Districts reported higher production of autos and other transportation-related equipment. Cleveland, Atlanta, and Chicago noted increases in auto production, and Boston, Richmond, Chicago, and St. Louis all cited robust activity for auto suppliers. Dallas reported healthy demand for nondefense transportation goods. Boston, Richmond, Kansas City, and San Francisco indicated continued growth in commercial aviation and aerospace manufacturing. Steel production rose in Cleveland and Chicago, and in a number of Districts metal manufacturers' new orders also rose. Other areas of manufacturing were more mixed. The Dallas report noted a decline in refining activity. However, both Dallas and Atlanta continued to note robust oil and gas drilling activity, and this activity was said to be propelling demand for related equipment from suppliers in Chicago. Manufacturing of construction materials or equipment was reported to have increased some in Philadelphia, Chicago, and Dallas but remained weak in most other Districts. Growth in high-tech manufacturing continued to be robust in Boston, but moderated in Dallas and San Francisco. Respondents reported that food production was up in Chicago, Minneapolis, and San Francisco, steady in Dallas, and lower in Boston. Manufacturers of consumer products reported a softening in orders in Richmond, Chicago, and Dallas, while new orders for apparel increased in San Francisco. Freight traffic increased in Cleveland and Atlanta, driven in large part by shipments of commodities, and Richmond also noted that port activity for commodities continued to be robust. However, Richmond also indicated that imports and exports, in particular of consumer goods, were both somewhat soft during what is typically the peak season for trade.

Real Estate and Construction. All twelve Districts reported that real estate and construction activity was little changed on balance from the prior report. Residential construction remained at low levels, particularly for single-family homes. That said, Philadelphia, Cleveland, and Minneapolis noted small increases in single-family construction, and construction of multifamily dwellings continued to increase at a moderate pace in Boston, Philadelphia, Cleveland, Kansas City, Dallas, and San Francisco. Home sales remained weak overall, and home prices were reported to be either flat or declining across all of the Districts. In contrast, rental

demand continued to rise in a number of Districts. Commercial real estate conditions remained weak overall, although commercial construction increased at a slow pace in most Districts. Boston, Philadelphia, St. Louis and Cleveland cited some gains in demand for construction of education, healthcare, and institutional-related buildings, and New York reported an increase in hotel development. Furthermore, Philadelphia, Cleveland, and Chicago noted an increase in demand for manufacturing and distribution facilities. Vacancy rates remained elevated, but Boston, Atlanta, Chicago, Minneapolis and Dallas reported an increase in leasing activity and Philadelphia and San Francisco indicated rising investor interest in well-leased office space.

Banking and Finance. Financial activity was reported to have weakened some since the last report. Dallas noted that the improvement in financial conditions had stalled, and Chicago indicated a further tightening of credit conditions, particularly for financial firms. In addition, New York reported noticeably weaker activity in the securities industry. Loan volumes were either flat or down slightly in most Districts. Consumer loan demand moved lower according to respondents in Cleveland, Chicago, and Kansas City, and it held steady in New York and San Francisco. However, New York, Philadelphia, Cleveland, Richmond, Chicago, and Kansas City all noted an increase in mortgage refinancing activity given lower mortgage rates and Cleveland also noted continued strength in auto lending and increased demand for business loans. Meanwhile, business loan demand was described as down somewhat in Philadelphia, Chicago, St. Louis, and Kansas City and was little changed in most other Districts. Loan standards were described as still tight for many classes of borrowers. That said, several Districts indicated that strong competition among banks for high quality borrowers was leading to lower rates and fees for these customers.

Agriculture and Natural Resources. Contacts generally reported that crop conditions at harvest were less favorable than a year ago, although results varied by and within Districts. Lower yields than a year ago were reported for major crops in the Chicago, Minneapolis, and Dallas Districts and in most of the Kansas City District. Even so, yields were large enough to alleviate worries about shortages. Corn, soybean, and wheat prices moved down, while some contacts noted higher prices for cotton. Drought conditions persisted in the Atlanta, Kansas City, and Dallas Districts, and pastures were in worse shape than a year ago in many areas. Although there were declines in feed costs, poultry and livestock producers remained pressured by drought and the cost increases of the past year. Hog, poultry, and dairy prices decreased, while cattle prices increased.

Still, agricultural prices tended to be higher than a year ago, boosting farm incomes outside of drought-stricken areas. Chicago and Kansas City reported higher agricultural land values.

Activity in energy-producing sectors strengthened in the Cleveland, Minneapolis, Kansas City, Dallas, and San Francisco Districts. Atlanta reported a decrease in off-shore operations in the Gulf of Mexico due to Tropical Storm Lee. Cleveland and Atlanta also anticipated increased capital investments in oil and gas production, since new technology has lowered costs and boosted output. Contacts in Minneapolis reported plans for expanded wind generation of electricity. Mining activity in the Minneapolis, Kansas City, and San Francisco Districts was strong.

Employment, Wages, and Prices. Respondents indicated that labor market conditions were little changed, on balance, in September. Several Districts cited only limited and selective demand for new hires. Cleveland, Richmond, Atlanta, Chicago, and Kansas City all noted that firms in some sectors that were hiring more broadly (such as manufacturing, transportation, and energy) were also experiencing difficulties in finding appropriately skilled or qualified labor. Respondents in the Boston, Richmond, Atlanta, and Chicago Districts indicated that hiring was being restrained by elevated uncertainty or lower expectations for their future growth. New York reported that deteriorating business conditions in the finance industry had led to a pull back in hiring with some layoffs anticipated in the months ahead. Richmond and Chicago reported reduced seasonal hiring in retail trade given apprehension about the strength of holiday sales, while New York indicated that seasonal hiring was likely to increase.

Most Districts reported that wage pressures remained subdued. Exceptions were generally for workers with specialized skills or in areas where firms were having difficulty finding workers. For instance, Atlanta and San Francisco cited wage gains for workers with specialized skills, such as in information technology, Minneapolis reported wage increases in the energy industry, and Cleveland noted higher wages for truck drivers. In addition, contacts in Minneapolis and Cleveland noted increases in non-wage costs such as healthcare. Most other cost pressures moderated in September. Although Kansas City and San Francisco reported increases in raw material costs, most Districts reported a general decline in commodity prices, including prices of oil and industrial metals. Many Districts indicated that there continued to be some further pass-through of past increases to wholesale prices. Though retail contacts noted a hesitation to increase prices with demand still weak, many Districts reported increased pass-through of costs in the retail sector, particularly for food and cotton-based goods.

FIRST DISTRICT – BOSTON

Business contacts in the First District mostly continue to see demand growth, but many are toning down their outlooks. Contacted retailers' year-over-year percentage sales changes range from low single-digit declines to high single-digit increases. Responses from manufacturers are mixed, but most continue to report revenue growth. Advertising and consulting firms generally cite strong results, but note a slowdown in the pace. Commercial and residential real estate markets remain soft. Net hiring remains very limited except for advertising and consulting; even there, contacts see restrained hiring going forward. Price pressures continue to ease; some commodity prices are down and many firms are holding their own prices steady. Contacts in several sectors cite uncertainty as a key factor restraining demand.

Retail and Tourism

First District retailers contacted in late September and early October provide mixed messages about sales trends and many note they are having a difficult time gauging their current circumstances. On a year-over-year basis, sales range from being down 3 percent to up 8 percent, with several in the “generally flat” middle. One big-ticket retailer saw sales steadily moving up over the last few weeks, although he cautions that a few weeks do not constitute a trend. Another retailer notes that sales have been up and down, on both a daily and a weekly basis, and attributes this volatility to consumer sentiment gyrating with positive and negative news about the domestic and global economy. Furniture sales are reportedly up a bit in some markets and apparel sales are said to be good. Some retailers still face “high” vendor prices and say they are passing them on to consumers. Contacts are uncertain about what to expect for the 2011 holiday sales season. Firms say they are budgeting about 2.5 percent wage increases for 2012, are hiring selectively, and are not planning layoffs.

The travel and tourism sector reports strength despite the generally downbeat global economic climate. Within the sector, leisure travel is slowing, while domestic and international business travel remains 5 percent to 7 percent higher than in 2010. September growth slowed to 4 percent from the 5 percent to 7 percent year-over-year gains seen earlier in 2011. Advance hotel bookings for 2012:Q1 are up. The industry is expecting positive but slower growth in 2012.

Manufacturing and Related Services

Business conditions at contacted manufactures are mixed. Most respondents continue to report revenue growth, but the vast majority also report that they are less optimistic about the next six to eighteen months than they were the last time they responded. Demand continues to be strong for firms in the automotive and aerospace components industries, as well as for a medical device firm, a semiconductor firm, and companies manufacturing industrial-related products. In comparison, sales growth remains positive but slow at an instruments manufacturer, a business services firm, and a company that makes entertainment products. Reasons contacts give for this sluggish demand include continued tepid sales to government-related institutions and financial services firms being very cautious about their expenditures. Demand was noticeably lower than in previous quarters—beyond the typical slowdown during the summer months—at a food products manufacturer. In addition, a business products firm and a manufacturer whose sales are dependent on the residential investment sector report even weaker demand than in the previous quarter.

Hiring at contacted manufacturers is limited to replacing workers who depart through retirement and/or attrition. A semiconductor firm says it is implementing a hiring freeze because incoming orders for 2012 have dropped sharply in recent weeks, especially from China. A business products firm continues to reduce headcount as part of a strategic restructuring plan and the manufacturer with sales tied heavily to residential investment is also reducing its workforce for the first time since 2009. A repeated theme from the majority of contacts is that they are implementing changes to keep costs low and/or reduce operating expenses. A couple of firms note that merit increases in 2012 will likely be lower than in 2011, while another firm plans to restructure its healthcare benefits to shift more of the costs to employees without offsetting pay increases.

There are fewer reports of input price pressures from manufacturers than in recent months, even though prices for some food-related commodities such as milk remain high. In fact, copper prices have dropped substantially in the last month or so and other precious metals prices have also declined; oil prices are also lower. Thus some manufacturers are facing noticeably lower costs; for the most part, they say they are waiting to see if commodity prices stay lower before adjusting their selling prices. More generally, contacted firms say their selling prices remain stable, although they are raising prices “as needed,” as indicated in previous reports. Some manufacturers note, however, that consumers are currently reluctant to spend on discretionary items, so they are offering promotions to partially offset price increases and/or promote their products so as not to lose customers to lower cost competitors.

Despite the uncertain economic environment, contacted manufacturers continue to look for worthwhile investment opportunities, and some have made recent acquisitions. To the extent that manufacturers are holding back on investment, they say it is not because of a lack of credit or insufficient cash holdings. Overall, firms are less optimistic about business conditions heading into 2012 than they were in the last round. Many firms are shifting any pickup in demand they previously anticipated for 2012 forward to 2013.

Selected Business Services

Consulting and advertising contacts in the First District report generally strong business conditions, although weaker than three months ago. Marketing and advertising contacts report robust growth—between 10 percent and 25 percent year-over-year. The higher end of the growth figures are driven by demand from financial firms, including private equity, who need to market new products in the changing financial and regulatory environment. Strategy and business consulting contacts report weaker demand in the third quarter than earlier in the year; they say clients are focusing on services that can be directly tied to the bottom line such as sales and process efficiency rather than strategy and management. Economic consulting firms report varying degrees of success, with firms doing government work experiencing stagnant demand, while firms focused on litigation see strong growth (close to 20 percent) reflecting growing caseloads involving large financial firms and the financial crisis. A healthcare consulting firm cites growth of only 2 percent year-over-year, attributing it to weakness in the pharmaceutical industry, with most growth coming from developing countries.

Contacts say they are generally raising prices about 3 percent to 5 percent to cover cost increases and maintain profit margins. Two strategic consulting contacts, however, made bigger price changes: one

firm dropped prices by 10 percent to compete with cheaper foreign firms, primarily in India, while the other raised prices 10 percent to keep up with compensation costs. Hiring activity is mixed, with firms spread along the spectrum from a 25 percent addition to a 10 percent layoff. Nearly all contacts, however, say hiring is likely to be restrained or flat for the foreseeable future.

For the most part, contacts have revised their expectations downward since the last conversation in July. Although many still expect business conditions and profitability to remain strong, they note that they are in a highly pro-cyclical industry and economic indicators point towards a pessimistic outlook. The one exception is firms that primarily provide services to the financial industry, who expect strong growth as financial firms continue to deal with the aftermath of the financial crisis and regulatory overhaul. Several contacts say they believe the increasing prospect of continued political stalemate in Washington is having serious deleterious effects on both their firms and the economy as a whole.

Commercial Real Estate

Reports from commercial real estate contacts around the District contain a mix of good news and bad. On the good news side, in both Boston and Providence significant amounts of office space were absorbed in the third quarter as tenants took advantage of attractive rents for prime locations. In the column of bad news, the outlook turned more pessimistic among roughly half of contacts in light of a perceived increase in national and global risks to growth. Respondents also report a number of other mixed or contradictory signals. While one contact perceives that leasing activity in downtown Boston has increased in recent weeks, another contact notes that the pace of office absorption year-to-date in Boston, while positive, remains well below what would be expected in a healthy recovery. Sales activity remains limited in Providence, while Boston continues to enjoy robust investment demand for prime office and apartment properties. The lending environment is characterized, on the one hand, by aggressive competition to fund loans on low-risk properties, such as well-leased buildings in prime Boston locations, and, on the other hand, by a decline in credit availability for properties carrying higher risk, such as those experiencing high vacancy rates. Construction activity in Boston continues at a moderate pace in the apartment, education, and health sectors, while office construction activity is described as negligible.

Residential Real Estate

Notwithstanding substantial increases in home and condo sales in August compared to a year ago, residential real estate markets in New England remain weak and sluggish. Contacts note that the enormous decline in buyer activity last year following the expiration of the tax credit largely explains the year-over-year increases observed this year. Meanwhile, the median sale prices of homes and condos decreased slightly in August throughout the region, with the exception of the Greater Boston area where prices rose. Inventory levels in Greater Boston reached very low levels in August. Residential respondents throughout New England describe buyers as cautious and patient, reflecting fears over job security. Some contacts express concern about the ability of consumers to secure home-purchase financing. At the same time, several contacts note an increase in investors purchasing single-family properties to rent out.

Forecasts for the remainder of the year remain bleak, with contacts anticipating 2011 sales will fall short of last year's total. Respondents do not expect a significant improvement in residential real estate within the next one to two years.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has remained modest since the last report, though there have been some signs of improvement in the labor market. Manufacturers report some further deterioration in their assessment of overall business conditions but note that orders, shipments and employment levels have been stable. Consumer spending, on the other hand, has been comparatively robust, despite low levels of consumer confidence: auto dealers report brisk business in August and September, non-auto retail contacts report that sales have been on or ahead of plan, and tourism activity has remained strong. Commercial real estate markets have been mixed but, on balance, slightly stronger since the last report. Home sales have been mixed, with scattered signs of a pickup, while the rental market has continued to strengthen. New home construction remains stalled, aside from rental apartments. There has been substantial new hotel development in Manhattan. Conditions in New York City's key securities industry have weakened noticeably. Finally, bankers report a pickup in demand for residential mortgage loans (largely refinancing), a slight increase in demand for non-residential mortgages, some easing in credit standards for business loans, and little change in delinquency rates.

Consumer Spending

Non-auto retailers report that same store sales were mostly on or ahead of plan in August and September and moderately ahead of a year earlier. A number of contacts describe back-to-school sales as fairly strong. One major mall in western New York State notes that a large flow of Canadian shoppers has contributed significantly to strong overall sales. While stores across much of the District had fairly widespread disruptions from Hurricane Irene, the effects were relatively brief and there was little or no net effect on sales or bottom line. Inventories are generally reported to be in good shape, though one chain describes them as a bit high. While some retailers reported sizable price increases for cotton-based apparel, others indicated that they have held off on such increases thus far; prices of other retail goods were generally reported to be steady to down slightly.

Auto dealers in upstate New York report that sales picked up since the last report, helped by a replenishment of their inventories, as disruptions from the tsunami in Japan earlier this year dissipated. Buffalo-area dealers estimate that sales of new vehicles were up 5-10 percent from a year ago in both August and September. Rochester-area dealers indicate year-over-year sales gains of 11 percent in August and in the range of 10-15 percent for September. Auto dealers in both areas continue to report strong sales of used cars, with persistently lean inventories driving up prices.

Dealers' service and parts departments also report sturdy business. Auto-industry contacts describe both retail and wholesale credit conditions as "fine".

Consumer confidence remains at depressed levels. The Conference Board reports that consumer confidence among residents of the Middle Atlantic states (NY, NJ, PA) fell in August and edged down further in September. Siena College reports that consumer confidence fell across most of New York State in the third quarter, with the steepest declines seen in New York City and the mid-Hudson Valley; only the Albany region saw an increase in confidence. Tourism activity in New York City has shown continued strength since the last report. Broadway theaters report that, aside from a brief swoon in business in late August due to Hurricane Irene, attendance has been fairly strong and roughly on par with a year earlier. Moreover, revenues for the full month of September were up nearly 10 percent from a year earlier, despite fewer than usual Broadway shows opening this fall. Manhattan hotels report that revenue per room was up roughly 6 percent from a year ago in both August and September, despite the hurricane. Most of this increase reflects higher room rates, as occupancy rates were little changed. Nevertheless, this implies a sizeable rise in tourism, because there are 6-7 percent more hotel rooms in Manhattan than a year ago.

Construction and Real Estate

Residential construction remains moribund, particularly for single-family homes. Home sales have picked up a bit in parts of the District but remain weak overall, while the rental market has continued to strengthen. The housing market in northern New Jersey remains sluggish: with a dearth of new home construction, aside from some development of rental projects, the inventory of distressed properties has declined slightly but remains large; sales volume remains sluggish, and home prices have held steady and appear to have bottomed out. After a strong July and August, sales of Manhattan apartments tapered off in September; while co-op sales have been relatively sluggish, condominium sales have been buoyed by foreign buyers. The inventory of available newly-constructed condos has declined considerably in recent months but remains elevated. The lowering of the jumbo mortgage threshold from \$730,000 to \$625,500 on October 1st appears to have had little effect on the market. Overall, co-op and condo prices remain essentially flat. New York City's rental market continues to strengthen. Net effective rents (which take into account landlord concessions that were prevalent a year ago but are now rare) are up roughly 5 percent from a year ago, with steeper increases at the high end of the market. Realtors in western New York State note that market conditions have improved slightly, with sales picking up and prices up slightly from a year ago.

Commercial real estate markets have been mixed since the last report. In New York City and metropolitan Buffalo, office vacancy rates declined in the third quarter, while rents moved up. However, vacancy rates rose in Westchester and Fairfield counties and were little changed across other parts of the District, while asking rents were generally down modestly. The market for industrial and warehouse space has not changed noticeably, except in metropolitan Albany and northern New Jersey, where asking rents are down moderately from a year ago. New office construction and development remains sluggish, but a number of major hotel development projects have been announced recently or are already underway in New York City.

Other Business Activity

A financial industry contact notes that securities firms have not been doing well recently, with all major business lines—including sales & trading, underwriting, and IPOs—weakening. Declining profits, along with uncertainty about the regulatory environment, are reportedly causing firms to pull back on hiring and compensation; some layoffs are also anticipated in this industry the months ahead. More generally, a major New York City employment agency reports that the job market has improved a bit since Labor Day but is still sluggish; hiring activity is described as not terrible but not great—again partly reflecting weakness in the financial sector. In other sectors, though, labor market conditions have been steady to slightly stronger since the last report. Two major retail chains indicate that they plan to hire more seasonal workers for the upcoming holiday season than in 2010. Both manufacturers and firms in a variety of service sectors indicate that employment levels have been steady since the last report, and that they plan to increase headcounts over the next six months.

Manufacturing firms across New York State indicate that their assessment of general business conditions has deteriorated further since the last report, although they note that orders and shipments have held steady. Respondents in that sector anticipate only modest improvement in business conditions and activity in the months ahead. Manufacturers also note that input price pressures have moderated somewhat and that selling prices have remained essentially stable.

Financial Developments

Bankers' responses suggest increased demand for residential and commercial mortgages and no change in demand for consumer loans or commercial and industrial loans. Increased demand was most prevalent for residential mortgages, where three times as many bankers indicated an increase as a decrease in demand. Much of this appears to reflect increased refinancing activity. Bankers report some slight tightening of credit standards for commercial and industrial loans, but in other loan

categories, almost all contacts indicated no change in standards. Respondents report a decrease in spreads of loan rates over costs of funds for all loan categories—especially commercial mortgages. Respondents also indicated widespread decreases in the average deposit rate. Finally, bankers indicate a modest decrease in delinquency rates for residential mortgages, but a slight increase in delinquencies for commercial and industrial loans. No change was indicated in other loan categories.

THIRD DISTRICT – PHILADELPHIA

Business activity in the Third District has remained mixed, with more positive sectors than negative ones compared with the previous Beige Book. In late August and early September, Hurricane Irene and Tropical Storm Lee left dozens of people injured or dead, damaged or destroyed thousands of homes, and cost hundreds of millions of dollars in disruption and damage throughout much of the Third District. Since the last Beige Book, manufacturing activity has declined further, but at a slower rate. Retailers reported flat to slightly down year-over-year sales. Motor vehicle dealers provided a bright spot with stronger year-over-year sales. Third District banks have reported little overall change in loan volume outstanding since the last Beige Book. On balance, residential real estate and construction activity have been slightly stronger since the last Beige Book, which was released soon after the debt-ceiling turmoil. Commercial real estate contacts have continued to report steady to slightly improved market conditions in most parts of the Third District. Service-sector firms reported generally flat to modest growth. Price pressures have moderated for many sectors but continue to strain profit margins.

Most Third District business contacts had already lowered their expectations over the past few months — projecting slow to flat growth through year-end. Ongoing uncertainty since the previous Beige Book has not significantly altered their outlook. Manufacturers still expect a modest rise in shipments and orders during the next six months. Retailers are hopeful for stronger sales, and auto dealers are uncertain; both have lean inventory plans. Most banking and residential real estate contacts had lowered their expectations before the last Beige Book. Commercial real estate contacts and service-sector firms continue to plan for slow growth; however, uncertainty has increased.

Manufacturing. Since the last Beige Book, Third District manufacturers reported further decreases in new orders and shipments; however, the rate of slowdown has lessened and is less widespread. The makers of primary metals, fabricated metals, and electronic equipment reported declining product demand. However, growing product demand was reported by makers of food products, lumber and wood products, industrial machinery, and instruments, and by printers and publishers. Hurricane Irene and Tropical Storm Lee were mentioned positively (as a source of increased demand for cleanup, repairs, and emergency equipment) and negatively (for flooding, harvesting problems, and shipment delays) by almost equal numbers of firms.

However, most firms were unaffected. Two key firms that supply or service manufacturers and other broad sectors have reported steady modest growth since the last Beige Book. Both anticipate stable growth from most of their clients (except defense-related firms) for the remainder of the year.

Third District manufacturers expect business conditions to improve during the next six months, despite expressing significant uncertainty. Since the last Beige Book, the general outlook has improved substantially, with nearly one-third more firms expecting an improvement and one-third fewer firms expecting a decline. Capital spending plans among area manufacturers remain slightly positive; however, significant uncertainty has been expressed.

Retail. For most of August and September, Third District retailers reported that sales were flat to down compared with a year earlier. However, “October started off with a bang,” said one department store chain manager. Low consumer confidence and rising uncertainty were widely cited as reasons for maintaining low inventory levels as the holiday season approached. Missed profit opportunities may result if the holiday sales prove stronger than last year, but a flat to down season could force further retail store closings.

Auto sales picked up in August and September, according to Third District auto dealers. Sales growth meant market share losses for Honda and Toyota, which have resumed full production, but whose dealer inventory may not be fully replenished until early 2012. Inventories remain lean and used cars remain scarce, leading to strong prices for dealers. Limited rehiring may ensue, if sales growth continues.

Finance. At most of the Third District banks contacted for this report, total outstanding loan volume has been roughly level since the previous Beige Book. Overall, commercial and industrial loans and commercial real estate loans have contracted somewhat. Bankers anticipate continued low consumer loan demand due to high unemployment rates and ongoing deleveraging, which has accelerated with the recent surge in refinancings. Credit quality, along with growing corporate and household cash balances, is improving. The outlook among Third District bankers interviewed in September is that total loan volume will expand only slightly over the remainder of the year.

Real Estate and Construction. Residential real estate activity in the Third District has been mixed with sales rising, then falling since the previous Beige Book, and with builders

reporting slight gains in activity. August sales figures finished up over the year, but agents reported that September would be off last year's pace. Properties are moving, but inventory remains very high. Overall, 2011 sales are expected to be lower than 2010 in all three Third District states. While trends and timing varied across states, builders reported somewhat stronger activity overall, since some distance has passed since the debt-ceiling debate. Still, sales remain difficult, and buyers noncommittal, as economic uncertainty increases. "People are really scared," said one builder. Labor and material costs have flattened, but list pricing has, as well; therefore, builders are struggling to hold margins. The industry remains cautious.

Caution guides the commercial and industrial real estate sector as well, but the sector is less susceptible to the news cycle. Since the last Beige Book, continued slow growth has been observed, with select markets beginning to tighten. In those markets, vacancy rates tend to drop, rents rise, and concessions disappear. Investor interest has picked up, but deals remain difficult to close. New construction or renovation plans are mostly limited to institutional, life sciences, multifamily, and warehousing sectors in selected markets.

Services. Third District service-sector firms have reported flat to modest growth since the last Beige Book. A logistics firm reported above-average improvement, noting some growth was seasonal. A staffing firm noted that its flat activity was marked by relatively greater interest in workers with high skills or low skills and little or no interest in workers with medium skills. The debt-ceiling agreement has increased caution for defense-related firms and may be a cause of future layoffs. These firms as well as several other large service firms reported greater efforts to expand their overseas markets, where their growth rates have been stronger. Firms remain generally positive, but very cautious, reporting that their own customers often delay decisions.

Prices and Wages. Since the previous Beige Book, general price levels remain contained. Price pressures have flattened or lessened further for retailers, service-sector firms, and builders for most factor prices; however, margins remain very tight. Retailers did note increases for cotton products. Manufacturers have been reporting slightly greater price pressures and modestly greater success at passing along those costs. Rents are rising in a few select markets, but house prices remain soft or are falling, and wages pressures are low. However, reports of shortages of skilled labor may reflect unrealistically low wage offers.

FOURTH DISTRICT – CLEVELAND

Economic activity in the Fourth District increased slowly during the past six weeks. Manufacturers reported stable production but a small decline in new orders and backlogs. Energy companies noted little change in output. Freight transport volume trended slightly higher. Retail sales rose slightly, whereas new-car purchases were reported as mixed. Home builders are increasingly turning to multi-family development as a revenue source, and nonresidential contractors struggled to rebuild their backlogs. The demand for business credit continued to slowly improve, while consumer loan demand was generally weak.

The pace of hiring seen earlier in the third quarter has diminished, especially in the manufacturing and energy sectors. Staffing-firm representatives reported a drop-off in the number of new job openings, with vacancies concentrated in technical occupations and healthcare. Wage pressures are contained. Prices for materials used by manufacturers and building contractors were fairly stable or fell slightly.

Manufacturing. Production at District factories during the past six weeks was mainly stable along seasonal trends, with minor declines in new orders and backlogs. Compared to year-ago levels, output was moderately higher. Most of our contacts expect near-term weakening in demand, but not to levels seen in the last recession. Steel producers and service centers reported that shipping volume was flat or somewhat higher. Shipments are being driven by transportation, energy, and industrial-equipment-related industries. Steel reps are cautious in their outlook but remain hopeful that current volume can be maintained. District auto production rose significantly in August on a month-over-month basis due to production starts on the 2012 models and the abatement of supply disruptions from Japan. Year-over-year output also rose, but the increase was limited to domestic nameplates.

Manufacturers remain committed to their capital spending plans for 2011; however, a few of our contacts indicated that they are considering pulling back on spending for 2012. Capacity utilization remains below normal at most factories, while steel executives reported that their utilization rates were at or near normal levels. Inventories are in line with sales. Reports on raw materials show that prices were stable or declined slightly. Nonetheless, several manufacturers announced modest price increases that will go into effect early in the fourth quarter. Expectations for rising steel prices were short-lived. Hiring has diminished since our last report. Manufacturers who have added to payrolls reported that it was difficult to recruit highly skilled workers. Wage pressures are contained.

Construction. Single-family home construction remains at a low level; however, several builders noted a recent pick up in traffic and inquiries. Sales contracts were evenly distributed across price-point categories. Half of our contacts reported that constructing and managing multi-family developments now accounts for most of their work. One contractor remarked that

his business has shifted to renovating foreclosed houses and renting them. A few builders reported that they would like to increase their spec inventory, but it remains difficult to obtain financing. Expectations call for little change in residential building in the near term. Not much difference was seen in the list prices or discounting of new homes since our last report, while building material prices showed normal fluctuations. We heard comments about subcontractors attempting to raise their prices to cover rising costs, but these attempts were mainly unsuccessful. General contractors added slightly to their payrolls. Any increases in take-home pay are being offset by substantial increases in health insurance premiums.

Activity in nonresidential construction for small to medium-size builders remained fairly weak, with much of their work limited to expansions and lower-budget projects. However, the number of inquiries has picked up slightly since our last report. The biggest challenge facing builders at this time is adding backlog. Construction contracts were primarily with health care providers and manufacturers, while a decline was seen in government-funded projects. Looking forward, our contacts expect modest growth at best during the next six months. Building material prices held steady. One builder mentioned that his firm recently purchased construction equipment for the first time since 2007. Construction payrolls and wages were stable.

Consumer Spending. Retailers described their sales for the period from mid-August through late September as slightly higher than during the previous six weeks. On a year-over-year basis, transactions also improved, mainly in the low single digits. Many of our contacts reported that customers were particularly interested in items that are new and innovative. Looking ahead to the fourth quarter, retailers expect sales to rise in the low- to mid-single digits on a year-over-year basis; however, grocers anticipate little change. We continued to hear about some upward pressure on supplier prices, although it mainly affects food products and items manufactured from cotton. In response, retailers were selective about the amount of the price pressures they passed through to consumers. Reports on profit margins were mixed. Capital budgets remain as planned. Half of our contacts said that outlays are higher than a year ago, and that they are used mainly for remodeling, constructing new stores, and e-commerce infrastructure. Little change in payrolls is expected at existing stores.

Reports on new-vehicle sales from mid-August through late September were mixed. On a year-over-year basis, vehicle purchases improved for most of our contacts, with several noting double-digit increases. Demand for fuel-efficient, less-expensive cars continued to grow, although the market for crossover vehicles remains fairly strong. Inventories are rebuilding, especially for Japanese cars, but remain below what many dealers would like. Dealers are cautious in their outlook due to uncertainty about the economy and the availability of vehicles that consumers want to buy. Demand for used cars is steady but down slightly from earlier in the year. We heard a few reports of some easing in credit restrictions, while banks and credit unions

continued to price loans very competitively. Many dealers are in the process of initiating factory-mandated programs for showroom upgrades and reimaging. The pickup in dealer hiring that we saw a couple of months ago has diminished. The few dealers who are looking to hire report that it is difficult to find qualified candidates.

Banking. Demand for business loans showed a moderate improvement, with requests being driven mainly by commercial real estate, manufacturing, and healthcare. Reports indicated downward pressure on interest rates for commercial credit. On the consumer side, bankers reported that applications for home equity lines of credit have declined, and they characterized installment loan activity as flat or down. However, direct and indirect auto lending continued to show strength. Applications for refinancing residential mortgages have picked up due to lower interest rates, with little activity in new purchases. No changes were made to loan application standards. Since our last report, many of our contacts have experienced substantial growth in core deposits from consumers and businesses. Delinquencies were mainly steady or declined across loan categories. Payrolls were stable, with only very selective hiring expected for the remainder of the year.

Energy. Conventional oil and natural gas drilling and production were fairly stable during the past six weeks, while activity in Marcellus and Utica shales expanded. A few producers expect output from conventional wells to increase in the upcoming months. Wellhead prices paid to independent producers remain on a downward trend. Little change in coal output is anticipated for the remainder of this year and into 2012. Spot prices for coal increased slightly. Capital outlays are on target, with moderate increases projected by oil and gas companies in the upcoming months for drilling new wells. The cost of production equipment and materials was flat during the past six weeks. Energy payrolls held steady.

Transportation. Overall, freight transport volume continued on a slight upward trend, with increases seen in consumer products, including furniture. Most of our contacts expect volume to grow at a slow, steady pace in the near term. Although diesel fuel prices have moderated, a few contacts noted that their companies still have a fuel surcharge in place. Truck maintenance costs continued to rise. Two of our respondents have successfully increased their shipping rates as customer contracts came up for renewal. Capital outlays have accelerated during 2011 relative to prior-year levels. Spending is mainly to replace aging equipment and to support demand growth from energy customers. One executive noted that newer engines and class 8 trucks are increasing in price, and that it is becoming more difficult to secure financing. Hiring has been largely for driver replacement; however, we heard a couple of reports about carriers adding capacity. Wage pressures are emerging due to a tightening of the driver pool.

FIFTH DISTRICT—RICHMOND

Overview. Business conditions in the Fifth District were either weak or weakening in most sectors since our last report. Manufacturing activity contracted moderately in September, after pulling back markedly in August. Retail sales also softened. In addition, activity at non-retail services firms began to decline. Both residential and commercial real estate activity remained near the weak levels seen in recent months. However, in banking, a moderate improvement in commercial lending offset weakness in mortgage lending. Tourism remained strong overall. District labor markets had undertones of weakness, with temp services reporting problems finding qualified workers. Price pressures moderated since our last assessment.

Manufacturing. District manufacturing activity continued to contract in September. A primary metals producer reported a dramatic falloff in their domestic orders, noting that a domestic retail chain had recently cancelled a large order. The firm expects to cut production unless orders improve immediately. Similarly, several textile and apparel manufacturers indicated that customers had reduced their purchases. Moreover, a number of furniture producers cited sluggish consumer spending, but added that corporate spending had improved somewhat since our last report. In contrast, an automotive parts maker said that underlying business was very strong. Also, a metal fabricator cited examples of improving orders, with autos and aerospace among his strongest customers. Our latest manufacturing survey showed that raw material prices grew at a considerably slower pace, while prices for finished goods changed little since our last report.

Port activity has advanced at a slower-than-expected pace in recent months. Several analysts stated that exports continued to outpace imports, but characterized both as somewhat soft during the current peak season. An official noted that major retailers were not anxious to build inventory going into the big holiday season and were waiting for an improvement in consumer spending before increasing their import orders. Another port official reported that ocean carriers had also become less optimistic about cargo shipments over the remainder of the year. Auto exports were flat in recent months, according to one analyst, but auto imports were starting to increase as dealers began stocking for the new model year. Exports of coal and other commodities continued to do exceptionally well.

Retail. Retail sales generally weakened since our last report, although several merchants reported a pickup in the last week of September. Most contacts indicated that back-to-school sales were satisfactory, but for many, somewhat below expectations; a Virginia retailer commented that sales were “good, though not fantastic.” Shopper traffic waned in early September but returned later in the month. A retail contact in central Virginia reported that credit-card use increased toward the end of the back-to-school season, indicating shoppers were more confident, but remarked, if consumers accumulate sizeable levels of debt now, they might spend less during the holiday season. An executive at a Virginia hardware

chain also reported strong sales through September, with little difficulty passing through price increases. Looking ahead to holiday sales, a Maryland department store manager was cautiously optimistic and she expected “practical gift-giving” this year. Apprehension about the strength of holiday sales has constrained seasonal hiring for some retailers. Small merchants in some areas reported difficulty obtaining financing for inventory. Big-ticket sales continued to be soft overall, but automobile sales were steady since our last report, according to several contacts. A West Virginia auto dealer said that his sales were close to 2010 levels, while a dealer near the D.C. metro area reported a stronger month, led by imports. Average retail wages and prices increased moderately, according to our contacts.

Services. Non-retail services providers reported slower activity. A number of services providers complained about various new government regulations and regulatory burdens on their businesses. Contacts on the southern Delmarva Peninsula expressed anxiety that new EPA regulations for the Chesapeake Bay could result in local chicken farmers losing contracts to farmers further inland, resulting in trickle-down business closures and job losses. Several executives commented that they were refraining from expansion and hiring and that they were holding cash because of uncertainty about the economy. An executive from a West Virginia engineering firm commented, “We are now in a wait-and-see mode.” According to a transportation contact, freight trucking firms faced challenges in hiring long-haul drivers, as drivers opted to remain on unemployment benefits rather than accept higher income for driving long-distance routes. Prices at services firms climbed more slowly since our last report.

Finance. Lending activity in the District was mixed over the last six weeks. Several commercial bankers in Virginia and Maryland reported moderate increases in loan demand in recent weeks, although some of the increase was from refinancing. One banker attributed an increase in loan applications to businesses shopping around to establish new bank relationships. Also, a lending officer in Richmond reported a sharp increase in loans to existing customers, because new products were now available and the approval process was faster. However, several bankers in West Virginia and the Carolinas noted a recent slowdown in home mortgage lending, following signs of improvement as recently as July. An exception was home refinancing, which benefited from lower mortgage rates, according to several sources. One commercial and industrial loan officer stated that the recent rise in economic uncertainty had caused several of his clients to pay down debt. Another banker reported that local auto dealers were borrowing less now, but were expected to increase their borrowing for new model year deliveries. Most banks continued to report improvements in credit quality, partly due to tighter credit standards. However, that tightening also contributed to a slowdown of the approval process.

Real Estate. Residential real estate activity continued to be depressed. Several brokers reported that sales in their area had dropped and that housing prices continued to decline. A contact in Charlotte described the local real estate market as worsening, while a source from Richmond stated that new building permits were down. According to a contact in Baltimore, the housing market remained slow and

short sales were getting harder to close due to tighter regulatory standards. A Realtor from Northern Virginia said that there were fewer foreclosure sales in the market, but added that short sales were still about 50 percent of her company's sales. Another Realtor in the D.C. area expected fewer sales for the upcoming season because inventory was shrinking, but said that low interest rates should keep the market active. He added that a moderate trend of sales at or above full price should continue for properties in good condition. Finally, a market analyst from the eastern Virginia area noted a modest improvement in sales activity, particularly in more urban areas. He also noted that new construction had shifted towards smaller, more energy-efficient homes.

Commercial real estate and construction activity was little changed from weak levels that have persisted throughout much of this year. Many commercial Realtors described the market as "spotty," with gains one week being offset by declines the next. Warehouse leasing activity fell, due to soft manufacturing sales and production. A Realtor in Virginia cited modest improvements in leasing by small industrial clients who were expanding, but added that he had to offer lower rents to retain several office tenants. An agent covering the Carolinas noted that "leases were getting done," but problems obtaining financing were holding back many deals. A South Carolina Realtor described the office market as mixed, but noted that gains were limited to the high end of the market. On the construction side, several contractors also described business as slow-paced. A contractor in Maryland stated that a slight increase in building renovations during June and July ended in August. Several contractors reported an uptick in government-related projects, while private work continued to decline.

Labor Markets. Although reports on labor market activity were varied in September, on balance their tone was more negative than in our last report. Employment agencies reported somewhat stronger demand for temporary help in recent weeks, particularly in the manufacturing sector, but indicated that finding qualified workers was becoming an increasing concern. A Virginia contact noted that one-in-five businesses were having problems finding workers with the desired skills, particularly in the manufacturing and professional business services industries. A manager of a temp agency in North Carolina stated that companies were hiring workers on a more permanent basis, but companies were taking longer to do so than in the past. A temp agency executive from the Charlotte area reported that, despite a backlog of work and employees working a lot of overtime, a manufacturer was still unwilling to hire at this time due to concerns about future demand. According to our latest survey, service sector hiring was flat over the last month. Retail sector wages were weak, while wages at service firms edged up. Hiring by manufacturers strengthened over the last month, while the average workweek eased and wage growth inched higher.

Tourism. Following Hurricane Irene in late August, hotels and related businesses on the Outer Banks of North Carolina quickly re-opened to serve late-season travelers. The southern portion of the Outer Banks suffered extensive damage, including destruction of buildings and roadways, particularly

along the Hatteras side. These tourist destinations are now closed, and many may not re-open until next spring. However, tourism remained vibrant in other areas. A hotel manager in western North Carolina reported strong bookings, both for groups and for pleasure stays. He noted that “leaf peepers” were booked for October and into November, and local holiday attractions were expected to keep bookings up through the end of the year. Hospitality contacts in Richmond and Baltimore also reported solid business. Finally, a contact said that recent international media attention on the earthquake-damaged Washington Monument has been overwhelming. He added that the new Martin Luther King Memorial was drawing huge crowds.

SIXTH DISTRICT – ATLANTA

Summary. Business contacts in the Sixth District indicated that economic activity continued to expand at a modest pace in September and early October. Merchants noted that retail sales decelerated slightly compared with the previous month, although auto sales continued to advance at a solid pace. Tourism activity remained robust throughout most of the District. Homebuilders and Real Estate brokers reported that new and existing home sales remained weak and home prices continued to decline. Commercial developers indicated that construction activity increased moderately compared with weak year-ago levels, and brokers noted an increase in relocation activity. Manufacturers reported a modest decline in production and new orders. Weakness in loan demand persisted, according to banking contacts as both consumers and businesses refrained from borrowing. Hiring for permanent positions remained very subdued across most sectors. Pricing pressures moderated somewhat as input costs declined or leveled off.

Consumer Spending and Tourism. District retailers reported that sales decelerated slightly in September compared with the August results. Reports were mixed among contacts with half noting that sales were below plan and the remainder was evenly split between those reporting sales at or above expectations. On a year-over-year basis, sales were generally higher although traffic was lower. Most contacts anticipated that holiday sales would be similar to 2010 results. Auto dealers reported that sales continued to increase.

Many retail contacts planned to raise prices, expecting to retract the increases if customers pushed back. Merchants continued to aggressively discount products to draw in traffic and have found it difficult to end such practices because of concern over losing customers.

Leisure and business travel remained strong in the District. Occupancy rates continued to improve, and both airport and cruise traffic were up. International visitors bolstered activity, mainly in Florida. Group bookings and theme park attendance were up in most areas. Overall, hospitality contacts expect a vibrant holiday season.

Real Estate and Construction. Residential brokers indicated that sales softened somewhat in September compared with the previous month and were flat to slightly up compared with very weak levels from last year. Florida brokers reported that home sales growth slowed. Outside of Florida, Southeast brokers noted a modest pickup in sales growth. Cash purchases by investors, second home buyers, international buyers, and retirees accounted for much of the sales activity across most of the Southeast, according to contacts. Existing home prices remained

below year earlier levels. District brokers anticipate only modest sales growth over the next several months.

Reports from District builders indicated that new home sales and construction activity were largely unchanged in September and were slightly ahead of weak levels from a year ago. Home builders continued to report that new home prices were largely flat compared with the previous month and a year ago. Overall, construction and new home sales growth are expected to be similar to weak year-ago levels over the next several months.

Half of District commercial contractors polled reported that construction activity in September exceeded the first half of the year, while just under one-third signaled that activity was weaker. Backlogs reportedly increased modestly as well. The outlook among contractors remained weak as most anticipated commercial development to be flat or down on a year-over-year basis for the remainder of 2011 and into 2012. Commercial brokers remarked that market dynamics continued to largely favor tenants in the District, particularly in the retail sector. However, some reports indicated that available office space had declined, and with little new office development underway, this could result in an increase in rental rates. An opposing view shared by some contacts was that smaller blocks of office space remained abundant on a sub-lease basis from tenants that have downsized, but are still paying for unused space. Corporate expansion and relocation interest has picked up in some markets, which could have a positive impact on inventory and construction.

Manufacturing and Transportation. Overall, manufacturers indicated a modest decline in new orders and production levels in September. In addition, fewer contacts noted plans to raise production in the near term. Energy exploration and extraction firms cited investing more in capital goods, which is expected to help equipment producers and suppliers. Auto manufacturers reported that the impact from the disaster in Japan had waned and that production is back to normal. Firms stated that they were increasing investment in technology-based equipment as a means to increase efficiency.

Contacts reported that volumes of shipments were above last year's levels, and that chemical and agricultural goods shipments, in particular, were strong. Rail contacts noted that shipments of energy and food-related products were driving increases in activity.

Banking and Finance. Banking contacts indicated continued weak loan demand. Loan growth remains a concern for banks in the Sixth District. Lending levels continued to fall as new opportunities remained highly elusive and very competitive. Deposits increased as people and businesses added to their savings. The majority of large firms continued to have ready access to

cash and lines of credit, while some small firms and many new firms that sought credit continued to experience difficulty. There were reports of non-bank entities, like private equity firms and groups of wealthy individuals, becoming increasingly interested in small business lending.

Employment and Prices. Employers continued to manage their labor supply very tightly. Most contacts indicated that the outlook for hiring remained restrained by modest expectations regarding future sales. Several reports suggested that permanent employees were primarily being used to maintain a firm's core business, while specific projects were being assigned to contractors and temporary hires. Firms continued to seek efficiency gains through investment in technology and other cost-saving applications. Hiring contacts highlighted having difficulties finding qualified candidates for specialized positions, in some cases, because of a lack of geographic mobility for potential hires. For lower wage positions, agencies reported numerous employment opportunities; however, the positions were contingent on passing skills tests and/or background checks, which many applicants failed.

On balance, contacts reported that input prices had receded or leveled off from earlier this year. Retailers continued to heavily discount products. Businesses mentioned pursuing various cost-cutting measures in order to support positive margins. Manufacturers noted general success passing on earlier increases in commodity prices. Any plans to increase wages were generally limited to employees with a high degree of technical skills.

Natural Resources and Agriculture. District oil and gas production declined in early September as energy producers reduced offshore operations and vacated staff in the path of Tropical Storm Lee in the Gulf of Mexico. Industry contacts indicated that plans to invest in increased production capacity were proceeding. In particular, contacts reported that new drilling technology had reduced costs and increased extraction capabilities for both oil and gas.

Drought conditions persisted in much of Georgia and parts of Alabama. High livestock feed costs were pressuring poultry producers but were being successfully passed on by cattle producers. Corn prices remained elevated and cotton prices paid to farmers increased modestly since the last report, although cotton futures prices have declined somewhat further in recent weeks. Agriculture contacts continued to report concerns over labor shortages and production issues that they tied to recently passed immigration laws in some states.

SEVENTH DISTRICT—CHICAGO

Summary. The pace of economic activity in the Seventh District picked up some in September. However, contacts continued to note uncertainty about the economic outlook and expressed concerns about recent financial market developments. Consumer spending was moderately higher and business spending increased slightly. Manufacturing production picked up, while construction was little changed. Credit conditions again tightened. There was further pass-through of elevated wholesale prices to the retail level. Corn, soybean, wheat, milk, and hog prices decreased, while cattle prices increased.

Consumer spending. Consumer spending was up moderately in September. Auto sales were higher, due in part to increased incentives. On balance, non-auto retail sales were essentially flat, though there were considerable differences in sales growth across types of goods. For instance, spending on electronics and appliances was up, while spending on furniture and apparel was down. Sales of luxury goods continued to show some strength, and sales in the lower price ranges of essential goods like personal care items and groceries also rose. Retailers' outlook for consumer spending remained very uncertain; and several contacts indicated that lower consumer confidence and spending fatigue after heavier-than-normal-promotions during the back-to-school season had made them less optimistic about the upcoming holiday season.

Business spending. Business spending increased slightly in September. Several manufacturing and construction contacts reported purchasing equipment, with the incentive to take advantage of a higher level of accelerated tax depreciation set to expire at year-end adding to the expected benefits of expanding capacity and improving efficiency. A few manufacturers who anticipated stronger demand also reported building inventories of raw materials now due to concerns about potential long lead times for these inputs in the future. In contrast, retailers were closely monitoring inventories, and some were paring them back. Hiring remained slow. A staffing firm noted slower growth of billable hours for staffing and professional services. In contrast, shortages of qualified candidates were reported in healthcare, information technology, engineering, and skilled manufacturing trades. These were most problematic in manufacturing, and many manufacturers indicated that they were addressing the shortfalls through training programs (including cross-training) for new and existing employees. Looking ahead, a recruitment firm indicated that many employers have lowered their expectations for staffing needs in the coming

year. Retail contacts expected minimal seasonal hiring this holiday season, and instead planned to lengthen the workweek for permanent workers.

Construction/real estate. Construction activity was again subdued in September. Residential real estate conditions remained weak; builders reported very little new single-family home construction and showroom traffic remained steady at a low level. Mortgage refinancing, however, picked up with the recent declines in mortgage rates. Nonresidential construction was little changed, on balance. Contacts noted an increase in industrial demand, in particular from manufacturing and distribution clients, whereas demand from the retail sector leveled off. Commercial real estate conditions improved slightly, with vacancy rates edging down, rents stabilizing, and incentives to attract new tenants increasing. Subleasing activity also rose, with contacts noting an increase in seasonal demand for short-term sublets in strip malls.

Manufacturing. Manufacturing production rebounded in September, with new orders and order backlogs increasing. Demand for heavy equipment was strong, led by robust activity in the construction, energy, and mining sectors. Contacts attributed much of the pick-up in construction equipment to replacement of dealer rental fleet inventory, which they expect to continue moving forward. Demand for heavy and medium-duty trucks also increased. Auto production was higher in September, reflecting rebuilding of inventories. District auto suppliers reported that recent orders had exceeded expectations along with concerns of being able to meet any additional demand in the near-term. Capacity utilization in the steel industry remained elevated. Production of industrial metals was up, while manufacturers of consumer products reported some softening. Activity for food processors continued to be robust. Contacts were cautiously optimistic about near-term prospects, pointing to continued gains in productivity, strength in demand from Asia and Brazil, and increased sales to local manufacturers looking to shorten their supply chains in the aftermath of the disruptions caused by the Japanese disasters in the spring. However, they remained concerned about the global economic outlook, with several noting a reluctance to expand capacity given elevated uncertainty.

Banking/finance. Credit conditions tightened further in September. Volatility in financial markets remained elevated, although it was lower than in August. Corporate funding costs edged higher, particularly for financial firms, even though benchmark interest rates moved lower. Banking contacts noted softer business and consumer loan demand, as clients were pulling back on spending in light of increased risks coming from Europe and the weakness in U.S. economic activity. Most lending activity was still in the form of refinancing, which picked up with lower long-term interest

rates. In another positive sign, contacts noted an increase in M&A activity among middle-market firms, even with the increase in spreads and lower liquidity in the high yield and term loan markets.

Prices/costs. Raw materials prices declined, but continued to put pressure on costs in September. Prices for industrial metals like copper and steel eased further, but contacts again reported extended lead times for specialty metals as well as some shortages. Energy prices were also lower, and fuel surcharges began to decline. Conversely, retailers indicated that wholesale price pressures intensified, with food prices still elevated and prices for cotton-based goods rising. While some retailers continued to absorb some of these higher costs in their margins, pass-through to downstream prices increased. Wage pressures remained moderate.

Agriculture. Harvest conditions varied across the District. Some parts were experiencing a slower-than-usual harvest due to late planting or fall rains that degraded crop quality. Other portions of the District were experiencing a fairly normal harvest. Corn and soybean yields appeared to be lower and more variable than a year ago. Nonetheless, yields were adequate to replenish inventories to levels that eased worries about shortages. Inventories also were boosted over the summer by lower exports and reduced usage of crops for livestock feed. Corn and soybean prices did back off during the reporting period; however, a sizeable portion of the crop had been sold prior to this decline. Lower prices for feedstocks provided relief to livestock operators. Prices for milk and hogs declined while cattle price rose; all three remained above the levels of a year ago. Farmland values and cash rental rates continued to rise in the District.

Eighth District - St. Louis

Summary

Reports from contacts in the Eighth District have been mixed since our previous survey. Manufacturing activity has continued to increase, while reports of activity in the services sector have been mixed. Residential real estate market activity has continued to decline, while commercial real estate market conditions varied across the District. Lending at a sample of small and mid-sized District banks declined slightly during 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 automobile, railroad rolling stock, ceramic product, automobile parts, sanitary paper product, and appliance manufacturing industries reported plans to expand operations and hire new workers. In contrast, firms in the ammunition, primary metal, and wood manufacturing industries announced plans to lay off employees.

Reports of activity in the District's services sector have been mixed since our previous survey. Firms in business support services, casinos, leisure, and health services industries announced plans to expand operations and hire new workers. In contrast, contacts in social services, media monitoring services, telecommunications, and education services industries announced plans to decrease operations in the District and lay off employees. General retailers noted that sales have been flat to slightly down and they anticipate that consumers will continue to cut back on their purchases through the end of the year. Auto dealers noted that sales increased during the reporting period but they anticipate that sales for the remainder of the year will be soft.

Real Estate and Construction

Home sales continued to decline throughout most of the Eighth District. Compared with the same period in 2010, August 2011 year-to-date home sales were down 6 percent in Memphis, 9 percent in St. Louis, 10 percent in Louisville, and 12 percent in Little Rock. Residential construction also continued to decrease throughout the District. August 2011 year-to-date single-

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family housing permits decreased in the majority of the District metro areas compared with the same period in 2010. Permits decreased 12 percent in Memphis, 19 percent in Louisville, and 24 percent in Little Rock and St. Louis.

Reports of commercial construction activity were mixed throughout the District. Contacts in northeast Arkansas reported that Jonesboro and Paragould are experiencing an increase in commercial construction activity. In contrast, contacts in St. Louis reported that commercial construction activity is weak and is expected to remain slow for the remainder of the year. Reports of industrial construction activity also varied across the District. Contacts in west Tennessee reported that various medical-related establishments have either completed construction projects or announced new ones. In contrast, contacts in St. Louis and Louisville reported that speculative industrial construction activity is expected to remain slow.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks decreased 0.8 percent in the three-month period from mid-June to mid-September. Real estate lending, which accounts for 73.7 percent of total loans, decreased 1.5 percent. Commercial and industrial loans, accounting for 15.7 percent of total loans, decreased 0.5 percent. Loans to individuals, accounting for 4.9 percent of loans, increased 2.1 percent. All other loans increased 6.3 percent and accounted for 5.7 percent of total loans. Over this period, total deposits increased 0.1 percent.

Agriculture and Natural Resources

The rates of completion for the cotton, soybean, and rice harvests in the District states were behind their 5-year average. In contrast, the corn harvest was at least 5 percent ahead of schedule in the majority of the District's states. The fraction of corn, soybean and sorghum crops rated in fair or better condition declined by at least one percent in most states since the previous report. The fraction of pastures in fair or better condition increased or remained unchanged in most states, except Illinois and Missouri. The District's monthly coal production for August 2011 was 0.3 percent lower compared with August 2010; however, the District's year-to-date coal production for August 2011 was 3.5 percent higher than the same period in 2010.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy increased modestly since the last report. Increased activity was noted in consumer spending, tourism, residential and commercial construction, residential and commercial real estate, professional services, manufacturing, energy and mining. Hiring at district companies increased slightly, while wage pressures remained generally subdued. Overall prices were steady with some exceptions noted.

Consumer Spending and Tourism

Consumer spending grew moderately. A major Minneapolis-based retailer reported that same-store sales in September increased over 5 percent compared with a year earlier. A manager at a Minneapolis area mall reported that traffic in August and September has been busy, while a mall manager in Montana said “back-to-school” traffic in August and September was steady. A Minnesota bar and restaurant chain reported that recent sales were up about 3 percent from a year earlier. A Minnesota supermarket chain noted that consumers continued to trade downward from high-end products to value-oriented products. Auto dealers in southern Minnesota reported that sales were bouncing back to stronger levels; consumers who put off purchases over the past couple of years are now needing to buy a different vehicle.

Fall tourism activity was up slightly. The Minnesota State Fair in late August and early September was the third-best attended in history, down 1 percent from the 2009 record. Fall tourism was on par with last year in western South Dakota, according to an official. Meanwhile, a Minnesota travel agency reported that recent corporate travel was up 15 percent from a year ago.

Construction and Real Estate

Commercial construction activity increased slightly since the last report. The value of commercial building permits in September increased from a year ago in the Sioux Falls, S.D., area. Commercial construction in the Upper Peninsula of Michigan increased recently, according to a labor official. In Minnesota, a telecommunications equipment provider is building a large addition. In Montana, an agricultural supplier plans to expand its research center. However, a survey by a Minnesota building contractors association revealed a slight decline in activity over the past month. Residential construction increased. A bank director noted strong building activity in North Dakota. The value of residential building permits in September increased from last year in the Sioux Falls area.

A large developer announced plans to build a \$100 million apartment tower in downtown Minneapolis. However, the value of residential building permits in September decreased from last year in the Minneapolis-St. Paul area.

Commercial real estate markets were up slightly. Respondents to a Minneapolis Fed ad hoc survey indicated a slight increase in the need for additional space over the next three months. A Minnesota venture capital firm that funds minority-owned businesses noted an increase in purchases of vacant buildings. A large broker of retail space in the Minneapolis-St. Paul area noted increased leasing activity during the past two months. A broker for office space reported that leasing activity has recently edged up. However, the number of sales transactions was still low. Home sales in September were up significantly from the same period a year ago in Minneapolis-St. Paul. August sales in the Sioux Falls area increased from last year; however, the median price of homes sold in August decreased from last year.

Services

Professional business services firms reported increased activity over the past three months. About half of services firms that responded to the Minneapolis Fed's ad hoc survey saw increased sales, while 27 percent saw decreased sales. Respondents noted that profits were also up, and they expect increased activity over the next three months. A Minnesota software company experienced double-digit revenue growth over the past two months. A recent survey of 47 Minnesota architects and engineers revealed increased activity over the past month.

Manufacturing

District manufacturing activity increased since the last report. A survey of purchasing managers by Creighton University (Omaha, Neb.) showed an increase in manufacturing activity in Minnesota and the Dakotas in September. An ammunition producer is expanding its operations in Minnesota. An industrial heater producer has expanded operations into a formerly shuttered vehicle plant in North Dakota. In South Dakota, a plastic sheeting producer is expanding its production facility, an electronics producer opened a new plant and a new slaughterhouse should be completed in November after a delay of several years.

Energy and Mining

Activity in the energy and mining sectors continued at a strong pace. Late-September oil exploration activity increased from mid-August. A company announced plans to begin

working on a \$300 million wind power plant in southwestern North Dakota. District iron ore mines continued to operate at near capacity. Activity at Montana mines remains strong, driven by high metals prices, according to contacts.

Agriculture

Ninth District farmers are expecting smaller harvests this year, but prices remain elevated. An early frost in late September may reduce corn and soybean yields around the District. Recent dry weather has been a boon to wheat harvesters, but overall wheat production in District states is expected to be about 15 percent lower than last year, according to U.S. Department of Agriculture estimates. Prices for corn, soybeans, wheat, dairy products, poultry and hogs fell slightly since the last report; cattle prices increased recently. In spite of these recent declines, prices for many District agricultural commodities remained well above their year-earlier levels.

Employment, Wages and Prices

Hiring at district companies increased slightly. A Minnesota firm that provides automation technologies and services to the oil and gas industries announced plans to add 100 workers. A bank will add 90 workers in Minnesota to deal with a surge in refinancing. A mine in the Upper Peninsula of Michigan was having some difficulty hiring 90 additional workers. A North Dakota bus plant will add over 50 workers, and a South Dakota health care record processing company will hire 20 new workers. According to a survey of construction-related firms in Minnesota, 18 percent expect to increase hiring in 2012, while 33 percent expect to decrease hiring; nevertheless, these responses were more optimistic than last year's survey.

Wage pressures remained generally subdued. However, in North Dakota, some wage increases were reported due to gains in hiring related to the oil industry.

Overall prices were steady with some exceptions noted. Bank directors reported that generally companies were resistant to increasing prices for their final products and services over the next six months. Minnesota gasoline prices were down 40 cents per gallon in early October compared with early September. However, some business contacts reported recent increases in health care costs. According to the Minneapolis Fed's ad hoc survey, 45 percent of respondents indicated that input costs were up from a year ago.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy improved slightly in late August and September. Retailers and auto dealers reported stronger sales and anticipated further gains in the months ahead. Sales were weaker at restaurants and hotels, leading to pessimism in these industries as the holiday season approaches. Manufacturing activity rose at durable goods factories, and the high-tech services industry experienced strong growth, while transportation activity was flat. Residential and commercial real estate and construction contacts continued to report weak conditions. Bank deposits continued to increase, while loan demand and loan quality deteriorated slightly. Crop conditions varied across the District, but farm income expectations remained strong. The energy sector expanded further with production increasing for oil, natural gas and coal. As input prices continued to increase, more contacts expected to raise prices in the coming months. But wage pressures eased from already low levels.

Consumer Spending. In late August and September, consumer spending increased in the retail and auto sectors but declined slightly in the restaurant and travel sectors. District retailers reported strong sales and expected additional increases during the next three months. Luxury goods, such as jewelry and custom-upholstered furniture, sold particularly well. One contact noted an uptick in sales among both high-end and low-end customers, but reported that those in the middle were holding back. Auto sales were also higher than expected despite several contacts describing low consumer confidence due to economic and political uncertainty. Many auto dealers reported difficulty finding qualified sales people and technicians. Restaurant sales were lower than anticipated but were expected to remain steady over the next three months. Despite slightly lower average room rates, hotel occupancy decreased, and District hotel owners expected further declines in the coming months.

Manufacturing and Other Business Activity. Manufacturing and high-tech service activity continued to grow during the survey period, while transportation activity was flat. Manufacturing activity increased at durable goods factories, particularly firms producing aircraft and computer equipment. These increases helped to offset a slight decline in activity at non-durable goods plants. Shipment and new order volumes edged up during the survey period, and firms expected both to improve over the coming months. With an overall increase in activity,

firms hired additional workers and slightly increased employee hours. Manufacturers continued to anticipate higher capital spending over the next six months, but these expectations were dampened somewhat compared to the previous survey. The high-tech industry reported steady growth in sales, and firms expected activity to be strong over the next three months.

Transportation activity was flat during the survey period, and contacts reported continued difficulty finding skilled technicians and drivers.

Real Estate and Construction. Residential and commercial real estate activity remained weak during late August and September. Residential sales were flat during the survey period, and home prices were down. Real estate contacts expected sales to be much slower in the coming months, but many attributed this to the seasonal slowdown. Residential mortgage lenders continued to report an increase in refinancing activity due to low mortgage rates, but very little new loan activity. Construction supply firms saw sales fall during the survey period, and they expected upcoming sales to be weak due to the seasonal slowdown of the construction industry. Housing starts were flat, and builders did not foresee activity increasing in the next three months. Multi-family building projects were the only area of reported growth by commercial construction contacts. Commercial real estate sales and prices continued to decline, and vacancy rates were flat. District contacts expected commercial prices and rents to decline further in the coming months. Developers reported no change in their access to credit.

Banking. In the recent survey period, bankers reported increased deposits, but somewhat weaker loan demand and a slight deterioration in loan quality. Overall loan demand decreased slightly as demand for consumer installment loans declined, while demand for commercial and industrial loans, commercial real estate loans, and residential real estate loans was marginally weaker. Credit standards remained largely unchanged in all major loan categories, and deposits increased for the sixth straight survey. Bankers reported a minor deterioration in loan quality compared to a year ago but anticipated some improvement in the outlook for loan quality over the next six months.

Agriculture. Agricultural conditions continued to vary across the District. Northern portions of the District, which received ample rain, expected bumper crops, while crops in the southern portions of the District continued to suffer under drought conditions. Most of the corn and soybean crops in Nebraska were rated in good or better condition as harvest began, while

Kansas expected yields well below average due to drought. Winter wheat planting was delayed in some areas of Oklahoma as farmers waited for rain, but planting was on schedule in Kansas and Nebraska. Despite recent downturns in crop prices, farm income expectations remained strong. Robust export demand supported livestock prices, but high feed costs trimmed profit margins. Farm loan demand remained weak as capital spending slowed further and some producers paid cash for higher input costs. District contacts indicated that prices of farmland sold at auction continued to post record highs.

Energy. Energy activity continued to expand in late August and September, and activity was expected to grow further over the next three months. The number of active drilling rigs for both oil and natural gas increased in the District. Oklahoma and Wyoming showed the largest growth in rig counts, which helped to offset slight decreases in New Mexico and Kansas. Contacts continued to report that future drilling activity was being constrained by a lack of qualified labor and the availability of equipment and supplies. Contacts reported having a difficult time attracting experienced skilled workers due to increased competition among firms. The price of crude oil was expected to decrease over the next three months, but natural gas prices were expected to increase as winter demand increases. Coal production increased slightly during the survey period.

Wages and Prices. District contacts reported higher prices for both inputs and finished goods, but wage pressures eased from already low levels. More manufacturers reported increases in raw material prices and finished goods prices in September, and most expected further increases over the next six months. Input prices also rose for building materials, especially roofing materials. Prices held steady at retail stores but were expected to increase in the coming months. Restaurant contacts also anticipated raising menu prices as food prices continued to climb. Contacts from several industries reported difficulties finding qualified workers for skilled positions, but fewer firms than in recent surveys reported increasing wages in response. Across all industries, most contacts expected wage increases to remain stable over the next three months.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy continued to expand at a modest pace since the last report. Manufacturing activity was mixed. Service sector activity held mostly steady, although retailers noted a recent pick-up in sales. There were some signs of improvement in the housing sector, and apartment demand remained brisk. Office and industrial leasing activity continued to increase, but commercial real estate investment activity fell. Loan demand was mostly unchanged, according to financial contacts. The energy sector continued to expand at a strong pace, while agricultural conditions deteriorated further. Many responding firms across industries noted their outlooks were less optimistic, reflecting uncertainty about the U.S. and global economies.

Prices Price pressures eased slightly since the last report. Most firms said input prices were unchanged or down, although retailers noted some increases in apparel and jewelry prices. Raw materials prices were flat or down. The exception was food producers who noted increased prices for some inputs. Contacts in the agricultural sector said commodity prices moved down since the last report.

The price of WTI held between \$80 and \$90 per barrel for most of the survey period, but slipped under \$80 by early October. As the driving season ended, the price of on-highway diesel and gasoline fell by 11 and 16 cents per gallon, respectively.

Labor Market Employment levels held steady at most responding firms, although there were several reports of slight hiring activity. Staffing firms continued to note steady demand at high levels. Most primary metals manufacturers reported increases in payrolls and some continue to look for additional workers. Scattered reports of hiring came from contacts in the legal, auto sales, airline and transportation manufacturing industries. Contacts in food manufacturing and financial services said hiring activity had abated. Wage pressures remained minimal, although upward pressure was noted by select retail, lumber and transportation manufacturing firms.

Manufacturing Reports were mixed among construction-related firms, but most contacts described demand as steady during the reporting period. Several responding firms said ongoing public projects were buoying activity. Fabricated metals firms noted a slight pickup in demand and two lumber producers noted a pickup believed to be due to home improvement projects and demand from homebuilders. Construction-related outlooks were mostly unchanged, with a slow recovery expected.

Respondents in high-tech manufacturing said that sales growth remained positive but continued to slow and new orders declined. Demand weakened across consumer and business markets and throughout most regions of the world. Producers of consumer electronics are reportedly very cautious about demand over the holidays and into the first half of next year, and have reduced their orders for semiconductors.

Because of the decline in new orders, respondents in the high-tech sector expect sales to weaken over the next six months.

Reports from paper manufacturers were mixed. Box producers noted orders from the food and beverage industry had fallen, but demand from retailers had picked up. One paper firm said strong demand was leading to lower inventories. Outlooks were mostly downbeat, due to fluctuations in the stock market and speculation about another recession. Non-defense transportation manufacturers said demand held steady at pretty good levels, and is up significantly from a year ago. Responding firms were cautiously optimistic in their outlooks, noting troubles at the national level had not impacted them yet. Food producers said sales were flat since the last report, and outlooks were positive, although firms were not hiring because of concerns about current U.S. economic conditions.

Petrochemical demand weakened in September. Ethylene spot prices fell despite two large plants shutting down. Domestic demand for polyethylene is weak, and the strong dollar has cut off exports to Asia and Europe. Exports to Latin America also weakened as Asian producers offered prices low enough to displace U.S. exports. Refiners said demand for refined products fell slightly as summer ended. Margins remain strong, but have narrowed.

Retail Sales Retail sales growth slowed over most of the reporting period, but picked up in the final weeks of September. A long hot summer led to delayed fall clothing purchases, however contacts said cooler weather recently spurred seasonal sales. The higher end of the market continues to fare better than lower price point offerings. Eleventh District growth trended roughly in line with the nation, according to one large retailer. Expectations are for modest growth this holiday season.

Automobile sales were steady with some slowdown in traffic attributed to economic concerns caused by pessimistic headlines. Despite concerns, customers continue to buy vehicles. Inventories are somewhat light, but at appropriate levels for the most part. Used car supply remains constrained resulting in high prices. Expectations are for a continued moderate pace of sales growth.

Services Overall demand for staffing services continued to hold steady at high levels. One contact noted a slight pull back that was characterized as “fear driven.” Direct hires continue to outpace temporary placements. Outlooks were mixed, with half of the respondents more cautious and half more positive. Even contacts with positive outlooks expressed concern about the upcoming election cycle and regulatory uncertainty. Accounting firms said demand for accounting services remained steady. Outlooks were unchanged, but one contact noted the next few months will be telling, as customers appear to be waiting for greater clarity about the economy and possible regulations. Demand for legal services remained unchanged.

Most transportation services firms said demand held steady or rose, but many firms’ outlooks weakened further since the last report. Intermodal cargo volumes were flat, and contacts say outlooks are negative for 2012. Railroad firms said volumes increased during the reporting period, but that the numbers

were somewhat artificially inflated due to capacity coming back online after the flooding in the northern U.S. Container volumes declined modestly over the past three months, but picked up in August. Small parcel shipments held steady in August, but shipping firms have lowered expectations of growth this year. Airline traffic was reportedly holding up well and has been flat to slightly improved over the last six weeks in terms of passenger volume. Demand for travel to Latin America remains strong, and travel to Japan is weak. Airline industry outlooks are positive, but more uncertain.

Construction and Real Estate Contacts in the housing sector noted some improvement, although most characterize conditions as choppy. Inventories of existing homes declined since the last report, and new home inventories remain lean. Most contacts say sales are better, although many note the strict lending environment, along with nervousness about the path of the U.S. economy, is keeping many would-be buyers on the sidelines.

Apartment demand continued to rise since the last report, and contacts are positive in their outlooks. While construction has increased, demand has kept up, and respondents believe it will be a year or two before much of the new product is available. Apartment rents continued to increase.

Commercial real estate contacts said demand for office space remained strong overall during the reporting period, but that in recent weeks clients have deferred decisions to expand. Demand for industrial space was being spurred by lease renewals rather than the expansion by existing tenants. Real estate investment activity declined in August amid uncertainty.

Financial Services Financial firms reported relatively flat loan demand overall. National banks noted modest increases in loan demand, although contacts were uncertain the gains would continue. Regional banks said loan demand was flat, and loan pricing remained competitive. Still, outstanding loan quality continued to hold up, according to contacts. The improvement in lending conditions noted in the last report has stalled, due to both the modest level of demand and more caution in supplying loans to anyone but the most creditworthy of borrowers.

Energy Drilling activity remains strong. Contacts in the energy sector said oil field activity is at high levels and expanding. The Texas rig count rose by 11 during the reporting period. Despite the strength, many noted concern about the recent dip in the price of oil and U.S. and global economic weakness.

Agriculture Drought in the Eleventh District remained severe during the reporting period, particularly in Texas where more than 85 percent of the state is in exceptional drought. Already poor grazing and stock water conditions deteriorated further, forcing many ranchers to sell off part or all of their herds. The drought caused low yields and record-high abandonment rates for some crops, including cotton. Export demand for beef continued to grow while the volume of exports for most crops was lower than six weeks ago. There was growing concern about continued drought conditions and the negative impact of low soil moisture on 2012 crop production.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the Twelfth District grew at a moderate pace during the reporting period of September through early October. Upward price pressures were mixed but remained modest overall, and upward wage pressures were limited to a narrow set of skilled occupations. Sales of retail items rose, as did demand for business and consumer services. District manufacturing activity improved modestly. Agricultural producers reported further sales gains, and demand rose a bit for providers of energy resources. Home sales and construction remained lackluster, and demand for commercial real estate stayed weak in most markets. District banking contacts indicated that overall loan demand was largely unchanged.

Wages and Prices

Overall price inflation for final goods and services was modest during the reporting period. Contacts noted additional price declines for energy inputs, particularly oil, but slight upticks in the costs of assorted raw materials. The combination of weak final demand and robust competition by firms continued to hold down final prices for a wide range of goods and services.

Contacts in most sectors reported that upward wage pressures were nearly nonexistent, held down by limited demand for new hires and high levels of unemployment. However, wage gains remained pronounced for narrow worker groups with specialized skills, particularly in information technology fields. The reports suggested that wage gains are likely to remain muted for the foreseeable future, as most businesses do not expect to engage in significant hiring over the balance of 2011, except for normal seasonal needs.

Retail Trade and Services

Retail sales expanded overall. Despite contact reports of deteriorating consumer sentiment, sales improved for both traditional department stores and discount chains alike. By contrast, sales were largely flat for grocers and retailers of major appliances, furniture, and electronics. Sales of new automobiles improved substantially, as demand growth was met by restocked inventories for some brands that had

struggled with shortages resulting from the natural disaster in Japan earlier this year. In response to the surge in demand for new autos, the demand for used vehicles weakened somewhat and their prices softened. Despite recent gains, contacts expect that overall consumer spending in the final months of the year will be little changed from the same period last year.

Demand for business and consumer services was mixed but appeared to improve on balance. Energy utilities reported further increases in demand from businesses and households. Sales continued to expand for providers of technology services, although the pace of growth has slowed from reporting periods earlier in the year. Demand was largely flat for providers of professional services such as legal services and accounting and also for health care. Providers of transportation services reported slightly slower activity. Conditions in the District's travel and tourism industry were mixed: contacts in Hawaii noted a slight decline in visitor volumes, while contacts in other major markets, such as San Diego and Las Vegas, noted further improvements in visitor counts and hotel occupancy rates.

Manufacturing

Manufacturing activity in the District showed modest gains on balance during the reporting period of September through early October. Makers of commercial aircraft and parts reported ongoing growth in new orders, which combined with an existing backlog to keep production rates near capacity. Apparel makers noted an increase in new orders, and production activity grew for food manufacturers. Manufacturers of semiconductors and other technology products reported further moderation in the pace of growth for new orders and sales, although capacity utilization rates stayed quite high. Capacity utilization rates also remained largely stable for petroleum refiners, despite increased distillate demand, as they strived to reduce elevated product inventories. Demand remained feeble for manufacturers of wood products used for construction, and this was accompanied by recent signs of weakness in the pulp and paper sector, which had reported growth earlier this year.

Agriculture and Resource-related Industries

Demand continued to expand for agricultural products, and activity overall improved somewhat for metal miners and extractors of natural resources used for energy production. Final sales and orders

rose further for assorted crops and livestock products, and reports indicated little change in the cost and availability of inputs. High price levels for assorted metals continued to boost production and investment in the District's mining sector. Extraction activity for natural gas was little changed from the prior period, while overall demand for crude oil improved somewhat as a result of rising foreign demand, particularly from emerging-market economies.

Real Estate and Construction

District home demand remained quite weak, and demand for commercial real estate was largely unchanged. The pace of home sales stayed sluggish throughout the District. The large number of distressed properties kept inventories of available homes high, putting downward pressure on prices and the pace of new home construction. In response to weak home demand, however, demand for residential rentals continued to improve, spurring expanded construction of multifamily units in some areas. Demand for commercial real estate was generally weak, as reflected in elevated vacancy rates for office and industrial space in most parts of the District. Furthermore, contacts noted a renewed sense of caution on the part of some business tenants and consequent reluctance to commit to long-term leases. On the other hand, conditions continued to improve for some major District markets, with rising investor demand for well-leased office buildings further boosting property values.

Financial Institutions

District banking contacts reported that loan demand was little changed from the prior reporting period. Businesses in general remained highly cautious in regard to their capital spending plans, citing recently elevated levels of uncertainty about the direction of the economy. As a result, demand for commercial and industrial loans was largely flat, although some contacts noted that competition among lenders to extend credit to well-qualified small and medium-sized businesses continued to intensify, placing further downward pressure on rates and fees. Demand for consumer credit was characterized as stable. Lending standards remained relatively restrictive for most types of business and consumer loans.