Summary of Commentary on ________________

Current Economic Conditions

By Federal Reserve District

April 2014
SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

April 2014
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>District</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>First District - Boston</td>
<td>I-1</td>
</tr>
<tr>
<td>Second District - New York</td>
<td>II-1</td>
</tr>
<tr>
<td>Third District - Philadelphia</td>
<td>III-1</td>
</tr>
<tr>
<td>Fourth District - Cleveland</td>
<td>IV-1</td>
</tr>
<tr>
<td>Fifth District - Richmond</td>
<td>V-1</td>
</tr>
<tr>
<td>Sixth District - Atlanta</td>
<td>VI-1</td>
</tr>
<tr>
<td>Seventh District - Chicago</td>
<td>VII-1</td>
</tr>
<tr>
<td>Eighth District - St. Louis</td>
<td>VIII-1</td>
</tr>
<tr>
<td>Ninth District - Minneapolis</td>
<td>IX-1</td>
</tr>
<tr>
<td>Tenth District - Kansas City</td>
<td>X-1</td>
</tr>
<tr>
<td>Eleventh District - Dallas</td>
<td>XI-1</td>
</tr>
<tr>
<td>Twelfth District - San Francisco</td>
<td>XII-1</td>
</tr>
</tbody>
</table>
SUMMARY

Reports from the twelve Federal Reserve Districts suggest economic activity increased in most regions of the country since the previous report. The expansion was characterized as modest or moderate by the Boston, Philadelphia, Richmond, Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco Districts. Chicago reported that economic growth had picked up, and New York and Philadelphia indicated that business activity had rebounded from weather-related slowdowns earlier in the year. The Cleveland and St. Louis Districts both reported a decline in economic activity.

Consumer spending increased in most Districts, as weather conditions improved and foot traffic returned. Auto sales were up in the New York, Philadelphia, Richmond, Atlanta, Chicago, Minneapolis, and San Francisco Districts, but they were little changed from a year earlier in Kansas City and Cleveland. In addition, assessments of tourism were generally positive, particularly for the Districts of Philadelphia, Richmond, and Minneapolis, where ski resorts had record seasons. Summer bookings were also solid in several Districts. Activity was mixed at non-financial services firms, with the Boston, Philadelphia, Minneapolis, and Kansas City Districts reporting increased demand. In the Boston District, for example, advertising and consulting were strong. The Richmond District indicated that revenues at non-retail services firms were flat, and St. Louis said firms’ planned activity declined on net.

The transportation sector generally strengthened in recent weeks, with higher port volumes and increased trucking. Even in districts where transportation was soft, the outlook was optimistic.

Manufacturing improved in most Districts. Several Districts reported that the impact of winter weather was less severe than earlier this year. Chicago and Minneapolis saw moderate growth, while manufacturing grew at a steady pace in New York, Atlanta, St. Louis, and Dallas. San Francisco noted that manufacturing appeared to gain some momentum. Other Districts noted mild growth, except Richmond, where manufacturing activity was mixed. Demand for food production declined in the Boston, Richmond, and Dallas Districts; however the drop was primarily weather related. Steel production picked up in several districts.

---

1 Prepared at the Federal Reserve Bank of Richmond and based on information collected before April 7, 2014. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
Reports on residential housing markets varied. However, across most Districts, home prices rose modestly and inventory levels remained low. Residential construction increased in several Districts; only Cleveland, St. Louis, and Minneapolis reported a decrease. Commercial construction also strengthened, with the exception of Cleveland, which reported a mild decline. Commercial leasing activity generally advanced at a modest pace. Industrial markets showed signs of tightening in downstate New York and northern New Jersey.

Loan demand strengthened since the previous Beige Book. Credit quality improved in the Philadelphia, Cleveland, Richmond, and Kansas City Districts. New York and Dallas reported especially strong increases. New York, Philadelphia, Cleveland, and Richmond cited the inclement weather as a factor reducing home sales and therefore mortgage borrowing. Commercial loan volumes grew in each of the Districts reporting on banking except St. Louis, where lending declined marginally.

Agricultural reports were mixed, as weather disruptions delayed crop plantings and shipments of commodities. A pig virus adversely affected hog farming in the Richmond, Chicago, Kansas City, and San Francisco Districts. Prices of beef and pork rose. In the energy industry, oil and natural gas production increased, while coal output continued to decline.

Labor market conditions were mixed but generally positive. The New York, Cleveland, Richmond, Chicago, Kansas City, and Dallas Districts reported difficulty finding skilled workers.

In most Districts, wage pressures were contained or minimal. The New York District reported scattered wage pressures and Cleveland reported that wage pressures were contained. However, there were several reports of upward wage pressures in the Dallas District.

Prices were generally stable or slightly higher. The New York District described price pressures as subdued in manufacturing and steady in the service sector. In Philadelphia, manufacturing prices paid and received edged up; in Richmond, prices of raw materials and finished goods rose more slowly since the previous Beige Book. Some districts reported higher prices for construction inputs and livestock. In Cleveland, concrete, drywall, and hardwood prices rose, while in the Kansas City District, drywall and roofing prices increased and were expected to rise further.

**Consumer Spending and Tourism.** Consumer spending increased since the previous report in a majority of Districts. Retailers reported improvement from generally weak sales at the
beginning of the year that were most likely the result of winter storms. Retail sales in New York rebounded strongly from weather-depressed levels, while cold weather continued to hold down consumer spending in Cleveland. St. Louis contacts reported a number of store openings and plans for future openings. Some categories of spending benefited from the long winter, such as cold weather apparel, appliances, and snow removal equipment. Finally, Boston noted increasing online sales, and some San Francisco firms have adjusted product offerings accordingly. Retail inventories were mixed in Boston and at or near desired levels in New York. Cleveland inventories were described as being in good shape. Inventories expanded in the Chicago District, and increased moderately in Kansas City.

Sales of cars and light trucks picked up in recent weeks as the weather improved and consumer traffic returned to dealerships. Auto sales were strong in the New York, Philadelphia, Richmond, and San Francisco Districts; sales growth was moderate in Chicago. Automobile sales strengthened slightly in the Dallas District and grew modestly in Atlanta, but were flat in Kansas City. In the Cleveland District, dealers reported that winter weather continued to push down transactions.

Tourism was generally positive in the Philadelphia, Richmond, Atlanta, Minneapolis, and Kansas City Districts. Tourism in the San Francisco District was higher than in the previous report but below year-ago levels. In New York, reports were mixed. Attendance at Broadway theaters picked up, in part because more shows were running. However, some contacts suggested that cold weather had decreased travel. In the Philadelphia, Richmond, and Minneapolis Districts, ski resorts reported an outstanding season. Atlanta reported positive tourist activity and Kansas City noted that activity picked up. Some districts were already experiencing heavy summer bookings.

Nonfinancial Services. Reports on non-financial services were mixed. In the Boston District, advertising and consulting were strong, especially for healthcare consulting; firms had a positive outlook for the remainder of the year. Philadelphia’s businesses were also optimistic; growth there was moderate. Activity increased in the Minneapolis District and Kansas City reported improved sales in professional, technical, and healthcare services. The Richmond District reported generally flat revenues at non-retail services firms. Chicago’s nonfinancial services firms increased business spending. St. Louis reported that firms’ planned activity
declined on net. Reports in the Dallas and San Francisco Districts were mixed, with San Francisco noting healthy demand in the technology industry.

Transportation generally strengthened in recent weeks. In the Richmond District, container volume through ports continued to grow briskly despite winter weather disruptions. Trucking increased as firms worked to catch up with weather-delayed shipments. Atlanta ports cited increased shipments of bulk agricultural commodities and record container volumes. In addition, intermodal traffic rose modestly. Transportation firms in the Kansas City District saw slower growth in March but expected moderate growth over the next six months. Dallas transportation services firms reported mixed demand, as container and intermodal cargo decreased. Airline demand there was soft, but above year-ago levels. In the Minneapolis District, freight rail backlogs delayed agricultural shipments. Costs of freight rose while volumes declined in the Cleveland District, and operators were unable to pass through increases in diesel prices.

Manufacturing. Conditions in the manufacturing sector improved since the previous Beige Book. The Chicago and Minneapolis Districts reported moderate growth, with a pickup in new orders and production. The San Francisco District stated that manufacturing activity appeared to gain some momentum. Manufacturing in the Boston, New York, Atlanta, St. Louis, and Dallas Districts grew at a steady pace, while Philadelphia, Cleveland, and Kansas City reported mild growth. Richmond reported mixed conditions in manufacturing. The Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Kansas City, and Dallas Districts noted that lingering winter weather hampered business activity, but the impact was less severe than earlier this year.

The auto, aerospace, and energy-related industries remained a source of strength for the Chicago District. Energy-related manufacturing was also particularly strong in Dallas. The sustained backlog of orders for commercial aircraft supported growth in the commercial aerospace industry in the San Francisco District. The Chicago District indicated that steel production recovered from a weather-related slowdown and capacity utilization returned to its expected levels. Additionally, specialty metals manufacturers reported an increase in new orders and order backlogs. In contrast, food manufacturers in Boston, Richmond, and Dallas reported a decline in demand that was largely weather related, but indicated that production was unchanged overall. Steel shipments grew slightly in Cleveland, with contacts anticipating slow growth in the months ahead. The demand for steel production inputs improved from both domestic and foreign
sources in the San Francisco District. Firms expected continued moderate growth in manufacturing, with some increased optimism.

**Real Estate and Construction.** Reports on residential housing markets varied. Home sales in Kansas City strengthened since the last survey period due in part to seasonal factors and improved weather conditions. Moreover, in the Dallas District single-family home sales remained healthy, with some contacts reporting a seasonal pickup in demand over the past six weeks. Residential real estate improved in Richmond, with further strengthening in Northern Virginia. New York housing markets continued to be mixed, while severe winter weather hampered sales activity. Chicago reported that home sales and new listings declined, though brokers attributed this primarily to cold weather and were optimistic that activity would improve in coming months. Atlanta brokers reported homes sales were mixed and contacts attributed areas of softness to higher home prices, limited inventory, and higher mortgage rates. The pace of home sales varied across the San Francisco District. Some contacts in California noted an uptick, while contacts from Washington observed a more sluggish pace. Home sales declined across most of the largest metro areas of the St. Louis District, and Minneapolis residential real estate market activity decreased since the previous report. In most Districts, inventory levels remained limited and residential home prices rose modestly.

Residential construction grew at a moderate pace in the Boston and San Francisco Districts, while New York, Philadelphia, and Atlanta reported modest growth. In the Chicago District, a decline in single-family construction was accompanied by growing demand for new apartment projects as residential rents continued to increase. Richmond single-family home construction grew slowly. In the Kansas City District, builders reported moderate growth in the number of housing starts and expected an increase in buyer traffic and prices in the coming months. In contrast, residential construction declined in Cleveland, St. Louis, and Minneapolis. Multifamily construction remained strong in the New York, Richmond, Atlanta, Chicago, Dallas, and San Francisco Districts. The Minneapolis District reported that overall residential construction activity decreased and that the value of residential permits fell in March.

Commercial construction activity strengthened since the previous survey period for the Kansas City and Dallas Districts. The Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco Districts reported modest to moderate expansion in commercial construction. Philadelphia noted mild growth, while Cleveland reported a slight decline in commercial
construction. Commercial leasing activity generally grew at a mild to moderate pace. Office and industrial activity remained robust in the Dallas District, with one contact noting particularly strong demand for office space in the Dallas metropolitan area. Leasing activity improved for retail and industrial space in the Richmond District. Commercial real estate contacts continued to report a decline in vacancy rates, a slight increase in absorption, and higher sales in Kansas City. The Boston, New York, and Chicago Districts reported modest commercial leasing in recent weeks. Industrial markets were generally steady across upstate New York but showed signs of tightening in downstate New York and northern New Jersey.

**Banking and Financial Services.** On the whole, loan demand strengthened since the previous Beige Book. Of the Districts that reported on banking, Philadelphia, Richmond, Atlanta, and Kansas City noted slight increases in loan volume, while Cleveland and Chicago indicated modest growth. The New York and San Francisco Districts had moderate gains. The Dallas District noted that consumer loans continued to grow moderately. St. Louis was the only district to report a decrease in loan volumes. With respect to credit quality, slight improvements were noted in Philadelphia and Cleveland, and modest advancements were made in Richmond and Kansas City. The New York and Dallas Districts reported especially strong increases. San Francisco indicated no net change in credit quality but noted that credit standards had tightened and that small business lending was primarily reserved for better-quality borrowers. Credit standards were reported to be loosening in the Atlanta District. New York, Cleveland, Richmond, and Kansas City indicated that standards were unchanged.

The majority of Districts described mixed or declining residential mortgage borrowing; only Dallas and San Francisco reported slight growth. New York, Philadelphia, Cleveland, and Richmond cited the inclement weather as a factor reducing home sales and therefore mortgage borrowing. However, the Philadelphia District also added that bankers reported growing consumer confidence.

Commercial loan volumes grew in each of the Districts reporting on banking except St. Louis, where lending declined marginally. Overall commercial mortgage lending grew in the New York, Philadelphia, Atlanta, Minneapolis, Kansas City, and San Francisco Districts. Cleveland and Chicago saw increased lending for equipment purchases. Kansas City reported greater demand for agriculture loans. Deposits were up in the Cleveland, Kansas City, and Dallas
Districts but little changed in New York. Delinquency rates declined in New York and Cleveland.

**Agriculture and Natural Resources.** Agricultural conditions varied across Districts in recent weeks. In the Chicago District, conditions improved. Kansas City and Dallas reported mild growth in the sector, while San Francisco reported stable demand for agricultural products. However, agricultural conditions weakened in the Richmond, Atlanta, St. Louis, and Minneapolis Districts. Adverse weather affected several districts. Winter wheat suffered as a result of dry conditions in the Kansas City District, and drought conditions continued to worsen in Dallas. In contrast, wet field conditions delayed planting in the Richmond and Atlanta Districts. Additionally, Chicago noted that the slow arrival of spring-like weather delayed fieldwork, although in some areas crops perform well after late planting. Minneapolis and San Francisco reported that winter weather disrupted transportation of some crops. In most Districts, crop prices increased in recent weeks but were below year-ago levels. Higher soybean prices shifted planting intentions away from corn. Dairy demand boomed in Dallas, especially for export, and prices for dairy products moved to record highs. Hog operations in a few Districts were battling a virus, and pork prices continued to rise. Beef prices reached record highs.

Activity in the energy industry increased modestly since the last report, with moderate growth reported by the Richmond, Kansas City, and Dallas Districts. San Francisco reported a mild increase. In Kansas City, the number of active oil and natural gas drilling rigs edged up, and expectations for the coming months were positive. San Francisco reported that crude oil production increased robustly. Demand for oilfield services was very healthy in the Dallas District, particularly in West Texas. Crude oil prices generally increased. Natural gas production was stable at a high level. Minneapolis reported strong growth in natural gas and increased exploration in North Dakota. Prices of natural gas and natural gas liquids stabilized. Coal production declined at a slower rate in Cleveland and St. Louis due in part to higher demand from domestic electric utilities. The Richmond District reported steady coal production as inventories were replenished from this winter’s drawdown. Cleveland and St. Louis indicated a mild decline in coal production. The Minneapolis District reported that mining was stable, with production at ore mines roughly level with a year earlier.

**Employment, Wages, and Prices.** Recent reports on labor market conditions were mixed but generally positive. For example, the New York, Chicago, and Minneapolis Districts
saw modest to moderate growth in employment. Dallas noted that transportation and manufacturing firms added jobs. Boston, however, indicated that few firms outside of advertising and consulting were hiring. Both Philadelphia and Atlanta said that firms planned to make capital expenditures to boost efficiency before they would hire. Employers in the New York, Cleveland, Richmond, Chicago, Kansas City, and Dallas Districts reported difficulty finding skilled workers. More specifically: New York, Richmond, and Chicago mentioned the IT field, Atlanta noted a need for truckers, Kansas City cited labor shortages for skilled positions, and Dallas reported that a food manufacturer found skilled labor in short supply.

In most Districts, wage pressures were generally portrayed as contained or minimal. For example, New York reported only scattered wage pressures and Philadelphia added that very few contacts are seeing wage pressures. In Cleveland, wage pressures were contained, Minneapolis reported that wage increases were moderate. However, Dallas cited several reports of upward wage pressures, and San Francisco added that wage gains remained quite modest overall but noted increases for certain occupations and in certain areas.

Prices were mostly steady, with scattered reports of increases. The New York District described price pressures as subdued in manufacturing and steady in the service sector. In Philadelphia manufacturing prices paid and received edged up, and in Richmond, prices of raw materials and finished goods rose more slowly since the previous Beige Book. Retail prices were steady in Boston while food prices moved up modestly in the Atlanta, Chicago, Kansas City, Dallas and San Francisco Districts. Boston reported that costs and prices increased between zero and four percent. Cleveland, Atlanta, Chicago, Kansas City, Dallas, and San Francisco Districts all said that prices of metals, brick, and cement rose modestly. Chicago noted that prices for corn, soybeans, dairy, hogs, and cattle increased. Kansas City also saw higher livestock prices. Prices of various categories of construction materials rose in some districts; in Cleveland, concrete, drywall, and hardwood prices all trended higher. The Kansas City District indicated that drywall and roofing prices rose and were expected to rise further. In San Francisco, wood and insulation prices edged up. Changes in natural gas prices varied: Minnesota reported increases while Dallas reported decreases as the winter weather subsided. The Cleveland District reported that spot prices for steam coal rose slightly, while the metallurgical coal price growth was flat.
FIRST DISTRICT – BOSTON

The First District economy continues to expand moderately, according to business contacts, although growth rates vary across sectors and firms. Most—but not all—retailers and manufacturers are seeing sales and revenue increases from a year ago; several continue to cite adverse effects of the recent winter weather. Advertising and consulting firms report strong growth, with the exception of a government contractor. Real estate markets continue to strengthen, although lack of inventory is constraining home sales in Massachusetts and commercial contacts cite concerns about “highly optimistic” assumptions underlying purchase prices and lending decisions. Very few firms outside of advertising and consulting are adding to head counts. Price changes remain minimal. The outlook is somewhat mixed, but mostly positive.

Retail

First District retailers contacted for this round were just completing Q1 or Q4 reports, depending on their fiscal year calendar. Year-over-year comparable-store sales ranged from being down 4 percent to being up slightly more than 10 percent. All of the respondents say that their retail sales were affected, to some degree, by the severe winter weather. One retailer benefited from much higher demand for winter-related items, while the others saw sales suffer because snowstorms kept consumers from shopping. Apparel, furniture, and appliances sold well, as did paint for interior home improvement projects. Inventories are mixed, in part because bad weather cut some stores’ sales. For retailers with both brick-and-mortar stores and online sales channels, Internet sales continue to account for an increasing share of total sales.

Contacts continue to report that prices are steady overall, but some expect to see very modest price increases later in the year; one, for example, cites higher prices for a range of apparel inputs as well as higher foreign labor costs. The consensus is that consumer sentiment is continuing to improve.

Manufacturing and Related Services

Of the nine manufacturing firms contacted in this round, seven report higher sales than the same period a year earlier. The two citing declines were a frozen fish company and a manufacturer of pressure sensitive films. Two others, a manufacturer of industrial motors and brakes and a manufacturer of scientific equipment, report very slight sales increases compared with a year ago. Contacts at four firms say the weather adversely affected their sales in the first quarter but they find it difficult to estimate how much of the reduction is likely to be recovered in coming months. A manufacturer of parts for the auto industry said that slow sales in the auto industry have not yet affected build schedules, so inventories of finished cars are piling up. If auto sales don’t “bounce back” in the spring, the contact believes that summer shutdowns in the industry will be longer than usual. A firm that makes water treatment devices reports that demand in residential real estate is strong. Globally, respondents indicate that sales in Europe are growing more rapidly, but from a very low base, while sales in Asia are strong.

Contacts report that commodity and other input prices are generally stable. Two firms say they raised prices on January 1 and customers largely accepted the increases. Inventory levels are largely unchanged. Five contacts report no change in employment and two report small increases. A biotechnology company plans to hire 1,000 workers this year and completed about 20 percent of that in the first quarter. A manufacturer of frozen fish closed a plant in Canada and moved production to New
England, with no change in overall firm employment. Two-thirds of contacts report higher capital expenditures planned for 2014 versus 2013. For two contacts, a manufacturer of parts for jet engines and a maker of industrial motors and brakes, the increases are large relative to their typical levels of investment and represent substantial increases capacity. None of our manufacturing contacts has a negative outlook, but four said that they expect sales to be flat or to grow very slowly in 2014.

**Selected Business Services**

Consulting and advertising contacts report a strong first quarter, consistent with an accelerating economy. Healthcare consulting contacts indicate that very strong demand is ongoing, as providers continue to adjust to the changes imposed by the Affordable Care Act (ACA). Economic consulting remains a strong growth industry, although the conclusion of litigation related to mortgage-back securities and the financial sector may restrain growth slightly in the near future. Strategy consultants report strong demand growth, driven by high levels of private equity activity and increased demand for corporate work, as clients have become more comfortable with the economic outlook and begin to release pent-up demand for consulting work. Advertising and marketing contacts also report strong growth, ranging from 5 percent to 20 percent year-over-year, and cite factors including growing confidence in the economic outlook and an increased willingness among large corporations to spend in order to position themselves within their markets. By contrast, a government contractor cites continued contraction, but has observed increasing interest in new projects since the passage of the recent budget deal.

Contacts report small increases in costs and prices, ranging from zero to 4 percent. Some consultants cite minimal pressure to keep prices low, while others say that competition has forced them to keep prices flat. Employment growth is in the zero to 5 percent range, although most firms at zero either increased their workforce in the recent past or expect to do so soon if their current growth continues. All contacts are optimistic about the coming year and expect economic growth either to continue or to accelerate. Contacts cite various ongoing risks, but generally were only minimally concerned.

**Commercial Real Estate**

Commercial real estate contacts in Boston report that brisk demand for and tight supply of office space in portions of the city, including the Seaport District and Back Bay, have pushed asking rents up in those locations in recent months. While these localized rent increases are contributing to increases in average office asking rents in greater Boston, contacts note that rents remain flat in portions of the Financial District and in a number of suburban locations, and that rising maintenance costs mean that net rents are growing more slowly than asking rents. Speculative office construction remains limited, although respondents say that the pipeline of planned office construction for greater Boston is growing. Contacts continue to express concerns that prices being paid by investors for commercial properties in Boston, along with lending terms for commercial mortgages, embody highly optimistic assumptions concerning future rent growth on the properties. Demand for Boston properties has been particularly strong among foreign investors and domestic pension funds. A few contacts, located in Boston as well as elsewhere in the region, also expressed concern that current construction levels of high-end apartments are excessive in relation to potential demand for such units. At the same time, these contacts indicate that
recently delivered luxury apartment units appear to be fetching rents in line with developers’ projections.

In Hartford, sluggish leasing activity is attributed to the long, harsh winter, although fundamentals and business sentiment are described as stable. Also in Hartford, a new apartment construction project recently broke ground downtown, and investment sales interest remains healthy. Leasing deals proceeded slowly in greater Providence in the first quarter, leading to decreased confidence by one contact there, who nonetheless cites some positive developments in the Rhode Island economy that should contribute to job creation in coming months. Rents in Providence are described as flat on average, with some modest upward pressure in the class A office sector and diminishing concessions in suburban locations. Leasing activity reportedly increased in Portland in recent weeks, up from the already healthy pace seen at the beginning of the year. In addition to strong leasing demand, which pertained especially to the class A office sector and the retail sector, Portland’s investment sales and development and construction inquiries grew in number. Growing demand for new construction reflects current, very low vacancy rates for downtown retail and class A office space in Portland. A regional lender faces ongoing competitive pressure to lower credit spreads for commercial mortgages, and continues to see a healthy pipeline of loan demand for most property types, with the exception of class B office space.

Contacts in both Hartford and Providence expect more slow improvement in fundamentals. The outlook for Portland’s commercial real estate market is bullish in light of its recent growth and planned business expansions, while contacts expect that mixed performance will persist across different locations in the Boston metropolitan area.

Residential Real Estate

Realtors in the First District express caution but optimism about the mixed sales results that continued in the region in February. Year-over-year sales of single family homes decreased in Rhode Island, Massachusetts, and Connecticut, and increased in Maine and Vermont. (Contacts in New Hampshire were unavailable for comment in this round.) In the condominium market, sales increased relative to last year in Connecticut, Massachusetts, and Vermont, while decreasing in Rhode Island; condo sales information is not reported in Maine. The consensus across the First District is that the decline in sales will be short lived; respondents say it was partially driven by the tough winter, as well as uncertainty about new federal flood insurance rules. Signs of spring weather and new legislation limiting flood insurance premium increases are lessening these concerns. In Massachusetts, however, inventory shortages are said to be the key reason for the decline in sales. One Massachusetts contact stated “there is just not enough supply to meet demand.” As a result, Massachusetts contacts say multiple bids are common and the median sales price for single family homes has increased compared to the year-earlier median in 17 consecutive months. Median sales prices also increased year-over-year in Connecticut and Maine, but declined in Vermont and Rhode Island. Residential real estate contacts say they expect sales to pick up seasonally this spring, but foresee no significant market shifts.
Economic activity in the Second District rebounded since the last report, as the harsh winter weather abated. Prices of finished goods and services remained generally stable, though businesses in a broad range of sectors report upward pressure on input prices. Manufacturers and especially service-sector firms in the District report that activity has picked up in recent weeks. Labor market conditions have shown signs of firming, in both the manufacturing and service sectors. Both general merchandise retailers and auto dealers report that sales have rebounded in recent weeks, following a weather-related slump in the first few weeks of the year. Tourism activity has been mixed since the last report, with weather continuing to be a factor. Both housing markets and commercial real estate markets were mixed but somewhat improved, on balance, in recent weeks. Finally, banks report increased loan demand from the commercial sector, little change in credit standards, and across the board declines in delinquency rates.

**Consumer Spending**

General merchandise retailers report that sales rebounded strongly in March, running at or close to plan and generally on par with or up a bit from comparable 2013 levels. Weather was still seen as a factor restraining sales in March—particularly for spring merchandise—but to a lesser extent than in January and February. Contacts at major malls in upstate New York report that sales rebounded in March, following a disappointing performance in the first two months of the year, and were up modestly from a year earlier. Similarly, two major retail chains report that same-store sales, which had been disappointingly weak in the first two months of the year, bounced back in March and were on or close to plan. Inventories are generally at or near desired levels. Prices are characterized as steady overall, though one contact reports ongoing heavy discounting.

Auto dealers in upstate New York report that new vehicle sales rebounded since the last report. Buffalo-area dealers report that new vehicle sales were robust in both February and March,
with double-digit percentage gains over comparable 2013 levels. Good lease deals, as well as lease turn-ins helped drive this recent strength. Rochester-area dealers also report a pickup in sales of new vehicles in recent weeks, though less pronounced, with sales up moderately from 2013 levels. Dealers in both these areas also note some pickup in used car sales and note that wholesale and retail credit conditions, more generally, remain in good shape.

Tourism activity has been mixed since the last report. Both revenues and attendance at Broadway theaters picked up in March and were up nearly 15 percent from a year earlier—in part because there are more shows running now. The average ticket price has leveled off. In contrast, New York City hotels report some softening in demand: both occupancy rates and room rates slipped below comparable 2013 levels in March, resulting in a roughly 8 percent decline in revenue per room; still, it should be noted that the number of hotel rooms city-wide is up 5½ percent. Contacts surmise that unseasonably cold weather into March may still be adversely affecting travel.

Finally, consumer confidence was little changed in March: Siena College’s survey of New York State residents indicates a small decline in confidence, mainly among upstate residents; the Conference Board’s survey also shows a small decrease in confidence among New York State residents but a small increase among residents of the Middle Atlantic states (NY, NJ, Pa) overall.

Construction and Real Estate

The District’s housing markets continue to be mixed, with severe winter weather weighing on sales in parts of the District. In particular, contacts in the Buffalo-Niagara region indicate that a combination of harsh weather and low inventory has hampered sales activity, though home prices have held steady. This pattern appears to be mirrored in other parts of upstate New York. In northern New Jersey, while weather appears to be less of a factor, a backlog of foreclosed properties continues to weigh on prices, according to one industry contact. Still, there are some signs of a pickup in the market, and builders appear to be increasingly optimistic, especially about the multi-family rental market. New York City’s co-op and condo market has shown further strength in the
first quarter: a leading residential appraiser notes that prices continue to rise modestly in Manhattan and substantially in Brooklyn and Queens, buoyed by a low inventory of homes on the market. In Manhattan, a shift in the sales mix towards larger apartments and new development has reportedly boosted dollar sales volume and exaggerated the price rise. Manhattan’s rental market remains on a plateau, whereas rents continue to rise briskly in Brooklyn. In Brooklyn, most new development is rental housing, while in Manhattan, it is predominantly condos.

Commercial real estate markets were generally stable to somewhat stronger through the end of the first quarter. In New York City, office availability rates were little changed, as brisk leasing activity allowed several newly available spaces to be absorbed; however, asking rents continued to rise and were up roughly 8 percent from a year earlier. Office availability rates were down modestly in the Long Island and Westchester/Fairfield markets; they were little changed in northern New Jersey but up modestly across upstate New York. Outside of New York City, asking rents for office space were little changed. Industrial markets were generally steady across upstate New York but showed signs of tightening in downstate New York and northern New Jersey.

**Other Business Activity**

The labor market has shown increasing signs of strength. A large and growing proportion of business contacts across the District plans to expand their workforces in the months ahead—particularly in the service sector. Moreover, two major New York City employment agencies report that labor demand has strengthened across the board, in particular with increased hiring from the financial sector. One contact notes that there are only scattered wage pressures but anticipates a broader pickup in wages soon. Another agency, however, has observed a growing number of unemployed job-seekers from the health care sector. Nevertheless, graduating college students in the New York City area are reported to be finding jobs quickly, and skilled workers are increasingly difficult to find—particularly in the IT field. In upstate New York, some auto dealers mention a shortage of skilled technicians.
Manufacturing firms in the District report that overall activity continued to expand modestly in March, while service-sector firms indicate a more pronounced pickup, following a weather-related slump in early 2014. Price pressures in the manufacturing sector have picked up somewhat but remain generally subdued, while in the service sector they remain steady but fairly widespread.

**Financial Developments**

Small to medium sized banks across the District report increased demand for commercial mortgages and commercial & industrial loans, but lower demand for residential mortgages; consumer loan demand remains little changed. Bankers report that credit standards are unchanged across all loan categories. Respondents indicate a decrease in spreads of loan rates over costs of funds for commercial mortgages and especially commercial & industrial loans, but report no change in other categories. Deposit rates are reported to be little changed. Finally, bankers report increasingly widespread improvement in delinquency rates across all loan categories.
THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District grew at a moderate pace during this current Beige Book period. Many sectors rebounded to various degrees from the economic disruptions caused by severe winter weather in January and February. Auto sales rebounded robustly over the Beige Book period, returning sales to levels above one year ago. General retail sales contacts reported moderate growth that helped bring sales levels even with the prior year’s levels. Demand for general services accelerated to a moderate pace of growth; staffing services reported slight gains. After declining in the previous Beige Book period, the construction and real estate sectors rebounded sufficiently to resume a slight pace of growth. Manufacturers also reported slight growth similar to what they had reported before the severe winter weather. An extended ski season helped winter tourist destinations to do well, while reports from the shore destinations were mixed during their off-season. Lending volumes grew slightly over this period, and credit quality continued to improve. Overall, contacts reported slight increases in wages, home prices, and general price levels, similar to the last Beige Book period.

Since most sectors seem to be resuming their trends from before the recent winter disruptions, most contacts are as optimistic as before, if not more so. Overall, contacts anticipated moderate growth over the next six months and continued to express confidence in the underlying economy. In regard to hiring and capital expenditure plans, firms are beginning to increase capital expenditures to boost efficiency, but they continue to approach new hiring with caution.

Manufacturing. Third District manufacturers reported that levels of activity rebounded with a slight overall increase during the current Beige Book period, following the previous decline that had been attributed to frequent, severe weather disruptions. New orders and shipments grew slightly this period after falling slightly last period. The share of all firms reporting increases in general activity rebounded from about one-fourth to one-third, while the share reporting decreases fell from about one-third to one-fourth. The makers of food products, lumber and wood products, chemicals, primary metals, and electronic equipment have reported gains, rebounding from the flat or lower activity they reported during the last Beige Book period. They join the makers of paper products, fabricated metals, and industrial machinery that have reported gains for both periods. A mixed report came from the makers of instruments during this period. Firms that reported stronger growth attributed much of the demand to growth in the auto- and housing-related sectors. Some increased demand is reported to stem from the desire of some big-box retailers to have access to a broader domestic supply chain.

Optimism that business conditions will improve over the next six months remained high and continued to be widespread across sectors. About half of all firms continued to anticipate increases in activity; however, slightly more firms than before (now, about one-sixth) reported expectations of lower activity. About one-third of all firms reported that they anticipate higher levels of employment and capital expenditures in six months – up from one-fourth in February. Nearly half of all firms anticipate that overall capital expenditures for 2014 will be higher than they were in 2013. While most firms reported that their capital expenditures focus on technology
to increase their plant productivity with few new hires, a few firms reported plans to increase both their plant and staff size.

**Retail.** Third District retailers reported a healthy rebound from the prior Beige Book period when sales slipped below plan and below the prior year. Retailers reported that sales grew at a moderate pace over the period and finished about even with last year. Stronger sales were observed despite ongoing poor weather that continued to limit sales potential and prompted continued heavy promotions to move inventory. Contacts also explained that year-over-year comparisons would be positive if one adjusted for the early Easter activity that was included in 2013 sales. Moreover, contacts described traffic returning to stores, reporting that the last Saturday of March was “tremendous,” despite rain and snow, and restaurants were packed. Retail development managers described strong optimism for new deals over the remainder of 2014 and into next year. Contacts mentioned rising rents for lease renewals, higher capital expenditure plans for new stores, and greater attendance and enthusiasm at deal-making conferences.

Auto sales rebounded robustly during this Beige Book period compared with the prior period when winter weather took a significant toll on sales. Dealers reported that sales grew at a strong pace, especially during several good weekends in March; the last week of March was “about as good as it gets.” According to one large dealership, its sales force closed on 30 to 40 vehicles per salesperson in March. Auto dealers remain bullish for 2014. In addition to expecting to capture more sales lost to winter weather, dealers cite increased credit availability, demand for leasing, and the still-high average age of cars as factors for their optimism.

**Finance.** Third District financial firms have reported slight increases in total loan volume since the last Beige Book. Commercial and industrial loan volume grew modestly, and commercial real estate loans grew slightly. Other real estate loans, such as home equity lines and mortgages, changed little. Volumes of credit card lending and other consumer credit loans fell throughout the Beige Book period (until the last week); however, those declines are typical of the seasonal trend following the winter holiday credit run-up. Overall, banking contacts described increasing consumer confidence, stronger middle market lending, but continued reluctance by small businesses to extend themselves with hiring or new investments. There were some exceptions, however: Some small businesses in healthier markets began to hire, while other markets with continuing high foreclosure rates struggled to grow at all. In healthier markets, housing prices have firmed, appraisals have strengthened, and credit quality has improved. Overall, most bankers remained optimistic for growth through the remainder of the year; however, markets were divided between those who believed the economy had turned a corner and others who continued to see a slow bleed of population and business in their local market.

**Real Estate and Construction.** Third District homebuilders continued to report weather-related disruptions to new home sales; however, customer traffic and construction activity grew enough to resume more normal levels. One builder reported a “decent” number of contract signings in March but stated that contract closings for the entire first quarter were well below last year and even further below plan for this year for them as well as for other area builders. Most builders, large and small, expect to see a strong spring sales season in part due to growing pent-
up demand from winter as well as the slowly improving economy. Some builders are using their own cash to build more speculative homes, anticipating that potential buyers will make faster decisions on a finished property than on a build-to-suit home. According to residential real estate brokers, sales activity grew somewhat from the prior Beige Book period; however, March contract numbers were still not good. Sales of existing homes were down (year over year) in most of the Third District’s larger metropolitan areas in February. Pending sales and new listings were also reported as declining at a modest pace, except along the Jersey Shore where listings were up slightly but only when compared with the quiet market that prevailed after Hurricane Sandy. Throughout the Third District, brokers expect to recapture some portion of the “lost” sales over the next three months; however, some potential buyers from the first quarter of 2014 may defer a decision until 2015.

Nonresidential real estate contacts indicated slight increases – representing a resumption of nearly normal activity following disruptions from the more severe weather of the prior period. Ongoing commercial construction resumed a low level of activity but is expected to ramp up this summer, as several major projects are expected to break ground. Leasing activity also rebounded slightly with the greatest activity (and lowest vacancy rates) for offices in the Philadelphia central business district and the Lehigh Valley. Despite the ongoing slow job growth of firms that fill office space, most contacts remain optimistic for stronger growth as the year progresses.

**Services.** Activity among Third District service-sector firms accelerated to a moderate pace of growth since the last Beige Book. Ski resorts and other winter tourist destinations reported a stellar season and one of the longest ski seasons for many resorts. Some mountain resorts have been able to extend the ski season almost up to the opening of their golf season. Contacts along the shore destinations provided mixed reports regarding tourist traffic over the slow winter season. Responses were more uniformly positive regarding early bookings for the summer season. A few contacts from both mountain and shore resorts reported that many summer weekends are already sold out.

Other service-sector firms reported mostly moderate growth rates, with almost half reporting increased sales and over 40 percent reporting increased orders. Staffing firms that lost billable hours during weather-related business closings reported modest growth – resuming their previous trend. One central Pennsylvania firm reported seeing a lot of hiring activity across all sectors of the economy and deemed that growth to be sustainable. Overall, the vast majority of service-sector contacts are optimistic that the growth trend will continue over the next six months.

**Prices and Wages.** Overall, Third District contacts reported no change to the steady, slight pace of price level increases, similar to other recent Beige Books periods. Manufacturing firms reported that prices paid and prices received tended to rise slightly, about the same as last period. Auto dealers reported little change in pricing, general retailers reported ongoing promotions, and most builders reported holding prices steady, if they were not offering specials. Many contacts continued to report tight, or narrowing, margins. Generally, real estate contacts continued to report rising prices for lower-priced homes, while higher-priced homes are aligned to local market conditions. Several contacts reported that appraisals are starting to support local
sales offers. Very few contacts are seeing wage pressures, although labor market tightening was observed in some smaller central Pennsylvania markets.
On balance, economic activity in the Fourth District declined slightly in the past six weeks. The severe winter weather appears to have negatively impacted business activity to a heightened degree; some producers and service providers are still experiencing lingering effects. Demand for manufactured products grew at a slow rate. Building contractors reported that their pipelines remained active, while field work slowed. Retailers and auto dealers experienced disappointing sales during February and into March. In the energy sector, shale gas production stayed at a high level, while coal output trended lower. Freight volume declined. Demand for business and consumer credit moved higher.

Hiring was sluggish across industry sectors. Reports by staffing-firm representatives on the number of job openings and placements were mixed, with job vacancies found primarily in manufacturing and healthcare. Wage pressures are contained. Input and finished goods prices saw little change, apart from increases in metals, building materials, and diesel fuel.

**Manufacturing.** Reports from District factories indicated that production levels held steady or they started to pick up as supply chain disruptions seen earlier in the year dissipated. Compared to a year ago, demand was generally consistent or somewhat higher. Many of our contacts expect production will rise relative to current levels in the upcoming months, with the strongest demand coming from the oil and gas sector and the motor vehicle industry. However, some concern was expressed about a weakening in Chinese and western European markets and its effect on new orders. Steel shipments grew slightly during the past six weeks. Contacts expressed disappointment with the overall level of market activity during the first quarter. Some believe that the severe winter weather may be partially responsible for the slow start to the year. Steel shipments are expected to grow, but at a slow pace: estimates of year-over-year growth rates ranged from 2 to 5 percent. District auto production increased modestly during February on both a month-over-month and year-over-year basis. One motor vehicle OEM reported that recent weather-related supply disruptions might negatively impact his production schedule until early summer.

Finished goods inventories have increased slightly, primarily due to an expected rise in demand or weather-related cutbacks in new orders. Several contacts noted that their capacity utilization rates rose during the past six weeks but are still within a normal range. Capital expenditures were in line with budgeted amounts for the fiscal year. Current budgets are higher than those of a year ago, with outlays being used for equipment upgrades, product development, and maintenance. Raw material price growth was mainly flat, although several reports indicated rising prices for metals. However, passing through price increases to customers was difficult. The number of manufacturers who are hiring skilled production workers and engineers has declined since our last report. Wage pressures are contained.
Real Estate and Construction. The number of new and existing single-family homes sold during February was little changed compared to the previous month. On a year-over-year basis, the number of units sold showed a modest decline. In contrast, single-family housing starts across the District fell sharply between January and February and compared to a year ago. Single and multifamily permits also declined during February. Although the drop-off in activity was attributed primarily to the cold weather, there is some concern about the housing market stabilizing after a year of fairly robust growth. New-home contracts were in the move-up price-point categories. Builders raised prices slightly on new homes after the beginning of the year to offset material and labor cost increases. Most of our contacts anticipate that the housing market will grow at a slow but steady pace in 2014.

Activity in nonresidential construction held steady during the past six weeks, with demand coming from a broad range of industry sectors. Reports indicated that the severe winter weather slowed fieldwork. While inquiries continued at a steady pace and backlogs were characterized as reasonably good, builders expressed frustration with financing issues or customers who keep pushing back contract signings. Some builders believe the latter is due to a lack of confidence in the underlying strength of the economy. One contact observed that unless clients have a compelling need, they will not move on new construction. Nonetheless, builders remain cautiously optimistic and expect modest to moderate growth this year.

Prices for concrete, drywall, and hardwood are trending higher. General contractors are satisfied with current staffing levels and plan to hire only for replacement or if business activity expands. Subcontractors are still confronting a tight supply of skilled labor; their ability to perform in a robust market and rising wage rates are a concern among many general contractors. Reports of rising costs related to healthcare are widespread.

Consumer Spending. Retailers reported that the cold weather played a role in holding down consumer spending during February and into early March. A few of our contacts observed that as weather conditions began to improve later in March, so did their sales. In general, same-store revenues were down slightly from a year ago. Cold-weather gear and small personal items were in highest demand. One contact reported a softening in purchases of consumables. Retailers are optimistic about consumer spending in the second quarter due to pent-up demand, the Easter holidays coming in late April, and warmer weather. Most projections were for single-digit increases in revenues. Vendor and shelf prices held steady. Several retailers noted that they are running more promotions than normal, though inventories were described as being in good shape. Hiring will be restricted to staffing new stores, and even here, it will be limited.

The number of new motor vehicles sold in February fell sharply compared to January figures. The decline was attributed to the persistently cold weather. However, unit volume was unchanged from a year earlier as light-truck sales continued to trend higher and auto sales moved
down. New-vehicle inventories remain slightly elevated, which was credited to the extreme weather. Used-vehicle purchases during February were ahead of those in January and a year ago. The outlook by dealers for the spring selling season is positive, with several noting a rise in incentives at this time of year to help boost sales. Leasing continues to grow in popularity as an alternative to purchasing a vehicle. Dealers are anticipating an uptick in payrolls, some of which is seasonal.

Banking. Demand for business credit began to pick up after a slow start earlier in the year. Requests were strongest for commercial real estate development, including multifamily housing, equipment financing, and mergers and acquisitions. Pricing of business loans remains competitive. Consumer credit demand stayed on a slow upward trend. Requests were primarily for auto loans and home equity products. We heard a few reports about declining credit card balances. Comments on residential mortgage activity were mixed; bankers seeing an increase said that most applications were for purchase transactions. Our contacts reported no changes to loan-application standards. Delinquency rates were stable or trended lower. Core deposits (consumer and business) grew slightly since our last report. Banking payrolls held steady, with little change expected in the upcoming months.

Energy. First-quarter coal production across the District fell below year-ago levels. However, the rate of decline is shrinking, due in part to higher demand from domestic electric utilities. Going forward, little change in output is projected. Spot prices for steam coal rose slightly, while metallurgical-coal price growth was flat. Natural gas production was stable at a high level. However, the number of unconventional wells drilled has fallen off. We heard a couple of reports indicating that conventional drilling companies are experiencing historic lows in activity due to low natural gas prices. Apart from diesel fuel, equipment, material, and labor costs were stable. Hiring was for replacement only.

Freight Transportation. Freight executives reported that their bottom lines fell sharply through the first two months of 2014 due to the severe winter weather—volumes declined while costs rose. After adjusting for weather-related costs, carriers were still close to their projected growth targets. As weather conditions improved, volume began to pick up. However, one contact noted that some business that was lost to the weather is unlikely to be regained. Diesel fuel prices moved higher in January and February. Operators have been unable to pass through the entire increase via surcharges. Year-to-date capital expenditures were in line with budgeted amounts. Monies are allocated more for equipment replacement than for capacity expansion. We heard reports about some carriers experiencing difficulty meeting demand due to the impact brought about by the hours-of-service regulations. The end result could be higher rates, which would help enable carriers to purchase additional equipment. Hiring is mainly for replacement.
Overview. The Fifth District economy expanded moderately since our last report. Manufacturing reports were mixed, ranging from lackluster to a pickup in production. Retail revenues also varied in recent weeks, with moderate growth on balance. Revenues remained generally flat in the non-retail service sector. Tourism increased, although persistent cold weather continued to lower forward bookings. Residential real estate markets improved; inventory was low in many areas although there were pockets of new construction. Construction of multifamily housing remained solid and construction of retail space increased. However, office and industrial building softened. Residential mortgage lending was sluggish and refinancing declined further. Commercial borrowing strengthened. Leasing of retail and industrial space picked up, while demand for office space weakened. In agriculture, prolonged winter weather delayed planting of row crops; prices of beef and pork rose. Natural gas production remained robust. Reports on labor markets were mixed, and average wages rose modestly. According to our latest survey, service sector prices edged up more quickly while retail prices advanced at a slower pace. In manufacturing, prices of raw materials and finished goods rose at a slower pace.

Manufacturing. Manufacturing reports were mixed in recent weeks. Winter weather continued to affect some regions and manufacturers reported that they were trying to make up lost production. A food manufacturer stated that the weather delayed shipments and also reduced some Mardi Gras orders, but production was unchanged overall. A producer of industrial equipment components reported a slowdown because capital goods orders had fallen. In contrast, a fixtures manufacturer remarked that his firm has been “busting at the seams” and he planned to expand. Another producer said he was keeping inventory low. Several manufacturers reported an increase in supplier delivery times. Manufacturers expected a pickup in orders during the weeks ahead. Prices of raw materials and finished goods rose at a slower pace, according to our survey.

Ports. Port officials reported that container volume continued to grow briskly, despite winter storm disruptions. Import growth exceeded export growth, with particular strength in housing-related durable goods, auto parts, and some seasonal products. Exports of grain and soybeans were especially robust and significant increases in exports of construction and building equipment destined for Europe moved through the Port of Virginia. Coal shipments declined. A
South Carolina port official reported that a recently announced local automotive expansion will increase exports. Auto exports from the Port of Baltimore softened somewhat.

**Retail.** Reports on retail revenues varied in recent weeks, but generally pointed to moderate gains. A large auto dealer outside the Washington, D.C. beltway reported that business had increased dramatically, necessitating additional inventory purchases. He attributed the strength to improved consumer attitudes about the economy. A discount retailer in the Tidewater area of Virginia reported that average transaction amounts had increased, but the drawn out winter weather had reduced foot traffic, resulting in overall sales contraction. The manager of a discount store in Baltimore stated that sales revenues were unchanged despite recent price increases. However, an executive at a chain of hardware stores in central Virginia saw somewhat faster sales growth. Retail prices rose at a slower pace since our last report.

**Services.** Revenues remained generally flat in the service sector. A financial services executive remarked that clients were feeling more confident, but there has been no real change in their investment activity. A North Carolina hospital executive reported that demand for services was only slightly higher in recent weeks, and a CPA reported business was at typical seasonal levels. According to an executive at a national freight trucking firm, shipments have increased markedly in recent weeks, partly due to “catching up.” Harsh winter weather kept many trucks from delivering goods and pre-loaded trucks could not leave warehouses because no one was present to release the freight. Service sector prices edged up more quickly.

Travel and tourism reports were generally positive. A Virginia hotel representative reported that government groups have started booking conferences again after nearly a year of decline. In Washington, D.C., tourist traffic for the Cherry Blossom Festival started in March and was described as robust, even though cold weather pushed the peak bloom time to the second week of April. An executive at a Virginia resort reported that his facility had the longest ski season in their history this winter with higher than typical occupancy. However, spring break bookings have shortened as schools make up winter class cancellations, and summer vacations are being booked for a week later than normal this year. A hotel manager in western North Carolina said bookings were “decent and growing.” Most hoteliers reported that although they expect strong bookings this summer, they have not increased rates.

**Finance.** Recent trends continued as consumer borrowing remained depressed while commercial lending strengthened. Residential mortgage and refinance demand was sluggish,
according to several bankers. A lender commented that the slower pace has led to bankers becoming more aggressive on rates to get business. New auto lending also weakened slightly in recent weeks. In contrast, demand for commercial real estate and new business lending remained robust. Credit quality of applicants has improved recently, while credit standards were unchanged.

**Real Estate.** Residential real estate improved, with some reports of strength. District home sales rose mildly and sale prices edged up. In some instances weather continued to slow buyer traffic, although Realtors reported a pickup as spring started. A Northern Virginia broker reported that activity remained strong and homes in his region were “getting snatched up” at or above asking price with multiple offers. Inventory was generally limited, although some contacts reported that new construction had boosted inventories a little. North Carolina Realtors reported conservative growth in single family residential building and a South Carolina contact stated that builders are starting to construct more pre-sold custom homes. A Maryland contractor stated that a townhome community located near the Washington, D.C. beltway was quickly selling units at a high price, while projects in other locations were slower to move.

Commercial construction contacts reported strong retail demand and softness in office and industrial building. A contact in South Carolina said free-standing retail was “hot,” and an increase in retail construction was also noted in Virginia Beach. Construction of multifamily housing remained strong. Commercial leasing activity intensified for retail and industrial space, while demand for office space softened. Vacancy rates were unchanged on net, however. Rental rates varied across submarket, with some increases in the retail segment. A South Carolina Realtor reported that the industrial market was “incredibly active” with an increase in manufacturing inquiries and that the state’s commercial retail market had ramped up. Broker reports on supply of Class A office space varied.

**Agriculture and Natural Resources.** Persistent cold temperatures and wet field conditions delayed planting of row crops and in some locations, limited days out in the fields. There were reports of slower small grain growth and some freeze damage to fruit trees. An agribusiness located in South Carolina reported that winter weather pushed back some of their harvesting timelines, although demand levels remained solid. Beef prices remained high and pork prices increased due to a virus currently being found in pigs. A contact reported that the
spreading virus decreased the number of pigs available to farmers and reduced the number maturing to hogs.

The natural gas sector remained robust. A contact in West Virginia reported an increase in manufacturers seeking natural gas. Coal production declined at a slower rate in recent weeks. The severe winter increased coal demand and diminished stock piles at power generating plants, bringing levels below the five year average. Coal production is expected to be steady as inventories are replenished.

**Labor Markets.** Reports on labor markets were mixed. Skilled manufacturing workers and specialized information technology workers were in high demand. However, a contact at a financial services firm commented that his office was “skittish” about hiring. Firms reported that finding manufacturing employees with the requisite skills remained challenging. An employment contact said entry level laborers were “easily sourced.” Temporary employment was generally unchanged, although some manufacturing contacts increased hiring to make up for weather-related lost production. According to our most recent surveys, manufacturing employment remained flat, the average workweek increased, and manufacturing wages grew at a slower rate. In the service sector, hiring declined slightly and average wages rose modestly.
On balance, the Sixth District economy expanded at a modest pace from mid-February through March. Reports across sectors were optimistic and most business contacts expect near-term activity to grow at a moderate pace.

Retailers cited a slight pickup in activity after experiencing sluggish sales at the beginning of the year. Hospitality contacts in areas negatively impacted by the adverse winter weather saw improvements in activity. Home sales were mixed but prices continued to appreciate from a year ago, according to residential homebuilders and brokers. Commercial real estate activity improved with construction growing at a modest pace from last year. Manufacturers reported continued improvements in new orders and production. Bankers noted an increase in loan demand. Hiring remained restrained for all sectors except construction. Prices increased slightly but most firms continued to report having little pricing power.

**Consumer Spending and Tourism.** District merchants reported an uptick in activity from mid-February through March following sluggish sales in January, which were widely attributed to the severe winter weather. Valentine’s Day provided a boost to activity with some contacts reporting double-digit, year-over-year, sales growth. Retailers continued to express concerns regarding the potential impact from increased healthcare premiums on consumer discretionary income. Light motor vehicle sales grew modestly over the time period.

Overall, District hospitality contacts reported positive activity after experiencing a decline in January as a result of the adverse weather conditions. However, negative impacts on the number of travelers to the District due to international political issues, especially on Latin America visitors, were a concern among many tourism contacts. The outlook for the next six months remains optimistic with most expecting an increase in business and leisure travel compared with a year ago.

**Real Estate and Construction.** District brokers’ reports were slightly less positive than in previous reports. Brokers reported home sales were mixed. In areas where sales growth had slowed, brokers largely attributed the softness to higher home prices, limited inventory, and higher mortgage rates. Inventory levels continued to fall on a year-over-year basis and the majority of contacts reported that home prices remained ahead of the year earlier level. The
sales outlook among brokers was somewhat weaker since our last report, although most contacts indicated that they expect the recent softness to be temporary.

Reports from District builders were slightly less positive than earlier reports. Fewer contacts indicated that recent activity was in line with their plan for the period. However, the majority of builders reported that construction activity and new home sales were ahead of the year earlier level. Most reports indicated that the level of unsold inventory had fallen from a year ago. The majority of contacts continued to report modest home price appreciation. The outlook among builders for sales and construction activity remains positive.

District brokers noted that demand for commercial real estate continued to improve. Absorption picked up, although contacts indicated that the rate of improvement still varied by metropolitan area, submarket, and property type. Construction activity continued to increase at a modest pace from last year. Most contacts reported that their current backlog was ahead of year earlier levels. Commercial contractors indicated that apartment construction remains fairly strong; however, some shared concerns that construction activity may be getting overheated in a few markets. Contacts reported that construction activity across other property types increased modestly. The outlook among District commercial real estate contacts remained positive with continued improvement expected over the course of the year.

Manufacturing and Transportation. Manufacturers reported increased activity across the region from mid-February through March. Significant improvements were cited in production and new orders. Weather conditions hampered activity, but the impact was not as severe as earlier this year. Finished inventory levels rose while purchasing agents reported longer wait times for supply deliveries and higher commodity prices. Nearly half of purchasing managers polled expect production levels to be higher over the next three to six months.

District transportation contacts widely reported an expansion of activity since the last report. Port contacts were especially upbeat, citing a rise in energy exports, increased shipments of bulk agricultural commodities, and record container volumes. Significant capital expenditures for port property expansion, infrastructure, and tenant activity were noted. District trucking contacts reported strong freight volumes, along with notable increases in tonnage following a significant decline in January due to the weather. Railroads continued to cite modest gains in intermodal traffic, led by container volume. Total rail carloads remained flat as significant
increases in shipments of grain, petroleum, and metallic ore were offset by double-digit declines in the movement of farm products, phosphate rock, and coke.

**Banking and Finance.** Since the last report, some banking contacts indicated a loosening of credit as a result of increased competition. Community bankers reported improved loan demand with aggressive loan terms and pricing driven by competition from larger banks and other community banks. Commercial loans were primarily fueled by poaching transactions from other banks rather than new business formation though District bankers noted a healthy pipeline for new loans related to commercial real estate. Credit line usage fell at some banks and small business clients remained hesitant about new borrowing. Banking contacts indicated their cost of doing business was going up as compliance costs increased.

**Employment and Prices.** District payroll growth remained constrained from mid-February through March. Firms continued to show a preference for implementing technology to increase output as opposed to adding staff. However, hiring increased in the construction sector across most of the District. Trucking companies continued to note difficulty finding drivers. Some employers continued to show hesitance in hiring on a large scale due to concerns surrounding healthcare reform.

Contacts continued to indicate little wage pressure outside of some high-skilled positions. With regard to the Affordable Care Act, most large companies expressed little concern about the law; however, some small and service-oriented businesses noted that health benefits costs had risen significantly and more eligible employees elected coverage. Non-labor input costs increased very slowly, with a few noted exceptions, including rising costs for developed land, construction materials, and food. Unit costs are expected to increase 1.8 percent over the next year, according to the Atlanta Fed's survey of business inflation expectations. Profit margins remained tight across most industries, as contacts continued to report very little pricing power.

**Natural Resources and Agriculture.** Contacts reported that harsh winter weather exposed limitations in U.S. natural gas distribution infrastructure. Demand was high and there was ample supply, yet transportation and distribution of gas was limited by the weather. In order to meet demand, power plants that typically operate with natural gas were forced to revert to coal. Over the fall and winter, utility companies in the region experienced growth in their residential customer base and attributed this to household formation and migration. The outlook among energy contacts remains optimistic for the year.
While sufficient rainfall left only small pockets of dry conditions in the District, some growers reported delaying spring planting due to too much precipitation. Florida’s citrus growers continued to seek ways to mitigate the effects of citrus greening and contacts were hopeful that new research funding included in the recently approved Farm Bill would help find a solution to this problem.
Summary. Growth in economic activity in the Seventh District picked up in March, and contacts generally maintained their optimistic outlook for 2014. Growth in consumer and business spending increased. Growth in manufacturing production was moderate, while growth in construction and real estate activity was modest. Credit conditions were little changed on balance. Cost pressures remained mild. Corn, soybean, milk, hog, and cattle prices moved higher.

Consumer spending. Growth in consumer spending increased slightly in March, but remained modest. Sales of winter-related items, such as clothing and snow removal equipment, were stronger than normal, while other sales categories picked up as the weather improved. Retail contacts noted that the colder weather had likely created some pent-up demand as customers delayed purchases of spring- and summer-related items. Light vehicle sales increased since the last reporting period, spurred by new products, increased incentives, and higher showroom traffic levels as the weather improved. Dealers also reported higher activity levels in their service and parts departments because of winter-related maintenance. However, some retailers expected that higher utility bills during the winter months would negatively affect household spending.

Business spending. Growth in business spending increased to a moderate pace in March. Inventories remained at comfortable levels for most manufacturers. Retailers expanded their inventories despite some weather-related delivery delays. Growth in capital spending picked up. Several contacts reported new spending on equipment and information technology, along with investment in structures. The pace of hiring increased, and while hiring plans decreased slightly, they remained positive. A staffing firm noted a slight increase in demand for their industrial services, but a continuing decrease in demand for their professional services. A number of manufacturers and some retailers reported capacity expansions along with attendant hiring or plans to hire. Demand remained strong for skilled workers, with positions often difficult to fill in engineering, information technology, accounting, and other technical occupations. Contacts cited an increasing willingness on the part of firms to train workers, where shortages exist, through in-house training, tuition reimbursement, or partnerships with local high schools and community colleges.
Construction and real estate. Growth in construction and real estate activity was modest in March. Although conditions have improved since the last reporting period, contacts reported that adverse weather continued to restrain growth. A decline in single-family construction was offset by growing demand for new apartment projects as residential rents continued to increase. Home sales and new listings declined, though brokers attributed this primarily to cold weather and were optimistic that activity would improve during the coming months. Several contacts cited high unemployment and restrictive lending standards as barriers to more robust growth. Demand for nonresidential construction grew at a moderate pace, with several contacts noting that industrial building activity had picked up substantially. In addition, contacts expected an increase in public construction resulting from the impact of harsh winter weather on infrastructure. Commercial real estate activity continued to expand, as vacancies ticked down and rents rose. Growth was concentrated in central business districts with high-end office space.

Manufacturing. Growth in manufacturing production increased from a mild to moderate pace in March, with contacts from a number of industries reporting increased activity. The auto, aerospace, and energy industries remained a source of strength for the District. Auto and steel production recovered from the weather-related slowdown, with overtime hours increasing to make up for earlier lost production. In addition, a steel industry contact noted that capacity utilization had returned to its expected level. Specialty metals manufacturers shared in the overall improvement of conditions, with many contacts reporting an increase in new orders and order backlogs. Manufacturers of consumer goods and construction materials also indicated increased demand. In contrast, demand for heavy machinery grew at a slow and steady pace, buoyed by the construction, transportation, and energy sectors, but weighed down by weakness in mining. A number of exporters reported that growth in demand from China was slower than expected, although growth picked up in Europe and Japan.

Banking/finance. Credit conditions were again little changed on balance over the reporting period. Corporate financing costs for a number of District firms decreased slightly, as bond spreads narrowed. Banking contacts reported moderate growth in business loan demand, mostly driven by purchases of equipment. The leveraged loan market remained active with steady deal flow. Contacts noted continued competitive pressure on structure and pricing for
commercial and industrial loans. Growth in consumer loan demand was modest, with a slight uptick in demand for home equity lines of credit and continued strong growth in auto lending.

**Prices/costs.** Cost pressures remained mild. While energy and transportation costs continue to be elevated, prices were lower than during the previous reporting period. Prices for nickel, aluminum, steel, and cement rose, and fell for copper and scrap steel. Retailers reported little change in prices, with the exception of some rising prices for foodstuffs. Wage pressures were slightly lower overall but mixed across industries. Overall, non-wage pressures moderated even while contacts continued to report concern about higher healthcare premiums.

**Agriculture.** The slow arrival of spring-like weather delayed fieldwork. However, concerns about a delayed start to planting were muted, especially in Illinois and Indiana where 2013 crops performed well after being planted late. The mood among farmers improved as crop prices increased enough from winter lows that breakeven outcomes now seem possible. Hence, there has been more forward contracting of crops than a year ago to manage risk. Higher soybean prices still support a shift in planting intentions toward soybeans and away from corn, but not as much as earlier this year. Fertilizer costs decreased from a year ago, and seed costs were flat. The livestock sector moved further into the black, as milk, hog, and cattle prices increased. Given lower numbers of hogs and cattle available to market, animals were fed longer in order to gain additional weight. Although hog operations were still battling a virus that killed many piglets, there were signs that the worst had past.
EIGHTH DISTRICT - ST. LOUIS

Summary

Business activity in the Eighth District has declined slightly since our previous report. While recent reports of planned activity in manufacturing have been positive, reports in services have continued to be negative on net. Residential real estate market conditions have deteriorated slightly, while commercial real estate market conditions have been mixed. Finally, total lending at a sample of small and mid-sized District banks decreased slightly from mid-December to mid-March.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the District, and a smaller number of manufacturers reported plans to reduce employment. Firms in food, steel ferroalloy, roofing material, thermal, furniture, biomedical testing products, alcoholic beverage, medical equipment, industrial inorganic chemicals, and aircraft manufacturing plan to hire new employees and expand operations in the District. In contrast, firms that manufacture carbonated beverages and pharmaceuticals reported plans to close down facilities and lay off workers in the District.

Reports of planned activity in the District’s service sector have been negative on net since the previous report. Firms in food, health care, and casino gaming services plan to lay off a large number of employees. In contrast, firms in online shopping, restaurant, telecommunication, marketing, accounting, logistics, insurance, and mortgage services reported plans for new hiring and expansion in District. Reports from retail contacts were generally positive. Contacts reported a number of store openings and planned openings in the St. Louis and Louisville areas.
Business contacts in the Eighth District noted that price and wage growth pressures have been generally modest in recent weeks. Contacts in Louisville noted that challenges in retaining and attracting workers have resulted in some wage growth.

**Real Estate and Construction**

Sales of new and existing homes declined across most of the largest metro areas of the District. Compared with the same period in 2013, January 2014 total home sales were down 12 percent in Louisville, 5 percent in Memphis, and 30 percent in St. Louis. In contrast, total home sales were up 7 percent in Little Rock. Similarly, February 2014 year-to-date single-family housing permits decreased in the largest metro areas of the District compared with the same period in 2013. Permits decreased 26 percent in Louisville, 23 percent in Little Rock, and 10 percent in St. Louis. In contrast, permits increased 14 percent in Memphis.

Commercial and industrial real estate market conditions have been mixed throughout most of the District. A contact in Evansville, Indiana, reported a languishing commercial real estate market. Contacts noted slow growth in the commercial real estate market in northeast Mississippi and no growth in the industrial market in Shelby County, Mississippi. Contacts in St. Louis reported increased demand for industrial space, while office leasing and sales slowed in the first quarter of 2014. On the other hand, commercial and industrial construction activity improved throughout most of the District. A contact in Louisville reported new commercial construction plans in west Louisville. A contact in Memphis reported a new office building construction in the east Memphis business corridor and several new industrial projects in DeSoto and Fayette counties in Mississippi. A contact in Little Rock reported a new industrial construction project. Contacts in St. Louis reported an ongoing construction plan at the Gateway
Commerce Center and several industrial construction plans in St. Charles and north St. Louis County.

**Banking and Finance**

Total loans outstanding at a sample of small and mid-sized District banks decreased 1.3 percent from mid-December to mid-March. Real estate lending, accounting for 72.9 percent of total loans, decreased 1.3 percent. Commercial and industrial loans, accounting for 15.7 percent of total loans, decreased 0.2 percent. Loans to individuals, accounting for 5 percent of total loans, decreased 0.9 percent. All other loans, accounting for 6.3 percent of total loans, decreased 4.7 percent. During this period, total deposits at these banks increased 0.5 percent.

**Agriculture and Natural Resources**

District farmers are expected to plant 1 million fewer acres of corn in 2014 (a decline of 4 percent) relative to 2013. In contrast, District farmers are expected to plant 570,000 and 511,000 more acres of soybeans and rice this year than in the previous year (an increase of 2 percent and 37.6 percent), respectively. Year-to-date coal production in the District for February 2014 was 5.4 percent lower compared with the same period in 2013. Coal production for February 2014 was 4.6 percent lower than in February 2013.
NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy continued to grow at a moderate pace since the last report. Increased activity was noted in commercial construction and real estate, professional services, manufacturing, tourism and energy. Mining and consumer spending were level, while agriculture was mixed and residential real estate and construction activity decreased. Labor markets continued to show signs of tightening, and wage increases were moderate. Overall price increases were modest.

**Consumer Spending and Tourism**

Overall consumer spending was level since the last report. Recent traffic was down from a year ago at a Minneapolis area mall largely due to unusually cold and snowy weather, while sales were up slightly. Sales at a Montana mall were up 5 percent in February compared with a year ago, while March sales slowed somewhat. A Minnesota-based food producer reported that recent sales were down slightly from a year ago, while a Minnesota-based clothing retailer noted that same-store sales were down slightly. Meanwhile, a car dealer in Minnesota noted strong sales during the past few weeks.

Late winter tourism activity was up somewhat. In northwestern Wisconsin, recent lodging levels were strong, while advance bookings for summer vacations were filling up. Several Montana ski resorts were able to extend their seasons due to the deep snow. According to a survey, 57 percent of Montana tourism business owners expect increases in visit numbers during 2014, while only 4 percent expect decreases. A travel agency in Minnesota noted that spring break travel bookings were about the same as last year.

**Construction and Real Estate**

Commercial construction activity continued to grow since the last report. The value of March commercial permits in Sioux Falls, S.D., increased 18 percent from a year ago. A large university is proposing a $190 million athletic complex. Overall residential construction activity decreased. In the Minneapolis-St. Paul area, the value of March residential permits decreased slightly from March 2013, while the value of March residential building permits in Billings, Mont., decreased. Residential building permits in Sioux Falls dropped significantly in value in March from a year earlier.

Activity in commercial real estate markets increased since the last report. Several cities in Minnesota noted increased interest in office, retail and hotel projects by developers. Residential real estate market activity decreased since the last report. In the Sioux Falls area, February home sales
were down 2 percent and inventory was down 5 percent, while the median sale price increased 3 percent relative to a year earlier. In Eau Claire, Wis., March home sales declined and the median price increased from March 2013. Meanwhile, February home sales in Minnesota were down 11 percent from the same period a year ago; the inventory of homes for sale was down 1 percent, while the median sale price rose 9 percent.

Services
Contacts from a wide variety of professional business services firms noted increased activity since the last report. An architecture firm reported that business recently hit record levels due to increased apartment construction. An engineering firm said growth was spreading across the District. A law firm noted growth in a broad mix of specialties. An accounting firm reported that while activity was slower in the beginning of the year, it picked up recently.

Manufacturing
District manufacturing activity increased since the last report. A March survey of purchasing managers by Creighton University (Omaha, Neb.) indicated that manufacturing activity increased in Minnesota and the Dakotas. In Minnesota, a medical device parts supplier was expanding its production facilities and a producer of recycling machinery was expanding its production and shipping facilities to meet strong international demand. Several unmanned aerial vehicle makers have recently expanded in eastern North Dakota due to the location of a test facility there.

Energy and Mining
Activity in the energy sector continued to increase at a brisk pace. Late-March oil and gas exploration increased in North Dakota and decreased slightly in Montana from the last report, while production remained at record levels. A North Dakota grain elevator recently finished a conversion that will allow the facility to load and ship sand used for hydraulic fracturing. Mining activity was stable. Production at district iron ore mines in early 2014 was roughly level from a year earlier. In Montana, regulators recently approved the expansion of a gold mine, while two other proposed operations were in the exploration stages.

Agriculture
District agricultural conditions were mixed, with livestock and dairy producers performing well, while crop producers were in worse shape. March prices received by farmers fell from a year earlier for corn, wheat, soybeans and chickens; prices increased for cattle, hogs, milk, eggs and turkeys. While crop prices increased slightly in March from the previous month, they remain
significantly below the strong levels of recent years. A freight rail backlog led to significant shipping delays reported by dry bean producers and will also likely delay getting the winter wheat harvest to market. District farmers overall intend to plant fewer acres of corn and significantly more acres of soybeans and wheat in 2014 compared with last year.

**Employment, Wages and Prices**

Labor markets continued to show signs of tightening. A survey of business leaders in eastern North Dakota showed that difficulty in attracting and retaining qualified employees was rated the top factor expected to adversely affect business in 2014. In Minnesota, a call center was in the process of adding 230 new jobs, a printing and packaging company plans to hire 200 new workers and a communications company plans to add 140 new jobs. A manufacturer with locations in the Dakotas recently announced that it intends to hire as many as 200 skilled laborers in the next five years. An employment services firm in Minnesota noted an increase in the rate of workers in temporary positions becoming permanent hires. A number of communities in North Dakota indicated difficulty finding enough health care workers to fill open positions. In contrast, a bank laid off about 200 employees in Minnesota due to declines in mortgage financing demand, a telemarketing operation closure affected about 100 workers and a technology company in Wisconsin was cutting nearly 80 jobs.

Wage increases were moderate. According to a recent survey of businesses in the St. Cloud, Minn., area, 49 percent of respondents expect to increase compensation over the next six months, while 50 percent expect no change, results similar to last year’s survey. However, in the energy-producing areas of North Dakota, the U.S. Postal Service and its union recently agreed to pay increases of up to 20 percent for rural carriers.

Overall price increases were modest. Minnesota gasoline prices were slightly higher at the end of March compared with the end of February. Changes in metals prices were mixed since the last report. However, residential propane and natural gas prices posted substantial increases from a year ago in some areas, due to extreme cold weather.
The Tenth District economy grew moderately in March, and most contacts were optimistic about future activity. Consumer spending increased despite flat auto sales, with solid sales expectations heading forward. District manufacturing activity grew further, and professional, high-tech, and health service firms reported improved sales. Commercial and residential real estate activity strengthened, and energy activity expanded. Bankers noted slightly higher loan demand, better loan quality, and rising deposits. In agriculture, District crop conditions remained dry, and livestock prices increased due to low inventories and strong export demand. Transportation firms reported some moderation in sales growth. Prices increased in most industries, with slightly more firms reporting higher wage pressures and labor shortages for skilled positions than in previous surveys.

**Consumer Spending.** Consumer spending increased moderately from the previous period, and contacts were more optimistic as weather conditions improved. Retail sales increased from the previous survey and were up considerably from a year ago. Several retailers noted stronger sales of discounted items and warm-weather products. Expectations for future sales also rose, and store inventories increased moderately. Auto sales were flat in March and similar to year-ago levels. However, expectations for future sales were notably better and contacts said light, mid-sized vehicles sold particularly well. Auto inventories rose but at a slower pace than in previous surveys. Restaurant sales increased, especially for value and take-out items, but activity remained similar to year-ago levels. Contacts expected restaurant sales to rise further in coming months. Tourist activity improved in March, and several hotels noted increased occupancy rates. Tourism contacts expected future activity to rise further.

**Manufacturing and Other Business Activity.** District manufacturing activity grew at a slightly faster pace in March, with some contacts attributing improved activity to better weather conditions. Production increased at all types of plants, particularly among machinery and plastics manufacturers. Shipments and new orders also rose, while employment was flat. Expectations for future factory activity were mostly stable and generally solid overall, although capital spending plans eased somewhat. Contacts in professional and high-tech services,
healthcare services, and wholesale trade reported generally higher sales than the previous survey period. Wholesale trade firms noted an increase in capital spending plans and a positive outlook for future sales, while expectations for professional and high-tech activity were not quite as strong. Transportation firms reported slower growth in March, but contacts expected moderate growth over the next six months. One contact mentioned capacity concerns due to equipment and driver shortages.

**Real Estate and Construction.** Commercial and residential real estate sales strengthened, and construction increased moderately from the previous survey period. Residential realtors reported stronger sales since the last survey period due in part to seasonal factors and improved weather conditions. Home sales were flat compared to a year ago, with low- and medium-priced homes continuing to sell well, while higher-priced home sales remained weak in most of the District. Residential home inventories fell further, putting upward pressure on prices. Inventories were expected to stabilize, and prices were expected to continue to rise in the near term. Construction supply and builder contacts reported stronger activity since the previous survey period and compared to last year. Builders reported moderate growth in the number of starts, and construction activity was expected to increase in the coming months, with prices and buyer traffic both expected to increase modestly. Mortgage activity was flat since the previous survey but was expected to increase in the coming months with a rise in home purchases. Commercial real estate contacts continued to report a decline in vacancy rates, a slight increase in absorption, and higher sales. Commercial construction activity strengthened since the last survey period and was higher than a year ago. Commercial real estate contacts expected both construction and prices to increase further in the coming months.

**Banking.** Bankers reported a slight increase in overall loan demand, improved loan quality and increased deposits levels in April. Respondents reported a minor increase in demand for commercial real estate loans. Most respondents reported steady demand for commercial and industrial loans, consumer installment loans and agriculture loans. Demand for residential real estate loans was mixed during the survey period but improved compared to the prior survey. Bankers reported stable or improving loan quality compared to a year ago, and all bankers
expected the outlook for loan quality to either improve or remain the same over the next six
months. Credit standards remained largely unchanged in all major loan categories, and
respondents reported an increase in deposits.

**Energy.** Energy activity expanded in March. Contacts reported solid drilling and
business activity, and expectations for the coming months were positive. The number of active
oil and natural gas rigs in the District edged up in March. Natural gas and natural gas liquids
prices stabilized after rising in recent survey periods but contacts expected them to stay above
average in the coming months. Crude oil spot and futures prices increased slightly since
February and are expected to remain stable heading forward. High spot prices, especially for oil,
continued to drive plans for strong capital expenditures in 2014. Hiring in the industry grew at a
strong pace, but several contacts noted a sustained shortage of skilled labor.

**Agriculture.** Crop growing conditions remained dry in March, while livestock prices
increased further since the last survey period. The winter wheat crop was in need of moisture
and rated in mostly fair to poor condition. Spring fieldwork began, and District farmers followed
national trends by intending to plant slightly more soybeans and less corn. With crop prices still
lower than a year ago, farm operating loan demand rose this year as farmers financed a larger
portion of crop input costs. However, global supply concerns supported strong exports, and crop
prices rose to a six-month high during the reporting period. Low cow inventories kept feeder
cattle prices elevated, and strong export demand supported higher fed cattle prices. In addition,
hog prices surged as the on-going swine virus cut inventories further.

**Wages and Prices.** Prices rose in most industries, and wage pressures increased slightly
in some industries, particularly for skilled positions. Retail prices edged up, with further
increases anticipated. Prices of manufacturing materials increased modestly compared to the
previous period, although slightly fewer firms planned on raising selling prices. Transportation
firms reported higher input and selling prices, and restaurants noted a considerable rise in food
costs and menu prices. Construction materials prices moved slightly higher, particularly for
drywall and roofing, and were expected to increase further. Many contacts continued to cite
concerns about future costs for health care and the potential for minimum wage reform. Wage
pressures increased slightly in some industries, especially manufacturing. Many contacts noted difficulties finding qualified labor, particularly for truck drivers, machinists, high-tech, and other types of skilled workers.
ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the last six weeks. Most manufacturers noted an increase in demand, although there were also reports of flat or slightly decreased activity. Retail and automobile sales increased and were above year-ago levels. Demand reports from nonfinancial services firms were mixed, but contacts were universally positive in their outlooks. Housing demand remained robust and home prices rose further. Loan demand grew at a slower pace than in the previous report. In the energy sector, oilfield services activity was robust and drilling increased, while drought conditions continued to negatively impact the agriculture sector. Price increases were noted in certain industries, but most contacts said prices were stable. Employment was flat to up slightly, with some reports of higher wages. Overall, industry outlooks were slightly more positive than six weeks ago.

**Prices**  
Firms said prices were stable to up slightly over the reporting period. Manufacturers noted higher selling prices for steel, scrap metal, brick and cement. A few contacts reported rising food prices, particularly for dairy, meat and fresh fruit. Transportation services firms said an increase in fuel costs over the last six weeks led to higher shipping rates, and airlines noted slightly higher ticket prices. Retail prices were stable overall and automobile selling prices were unchanged, although automobile contacts said there were some additional manufacturer incentives and rebates available for consumers.

Crude oil prices rose in early March to a high not seen since last September, but ended the month at a level similar to the beginning of the reporting period, around $100 per barrel. Natural gas prices trended downward over the last six weeks, shedding much of the winter weather-related gains from earlier in the year.

**Labor Market**  
Employment held steady or increased slightly at most responding firms. Transportation, food and construction-related manufacturers reported continued hiring. Retail employment was flat over the reporting period but contacts noted stronger year-over-year headcount increases in Texas stores than elsewhere in the United States. Energy contacts said the labor market for drilling and oilfield services remained very tight, and one firm noted that they would be doing more work if there was sufficient labor. A food manufacturer found skilled labor to be in short supply, and housing sector contacts continued to report shortages of construction workers.

There were several reports of upward wage pressures. Construction-related manufacturers said they had to pay truck drivers more, and an oilfield services firm noted definite wage increases. Upward wage pressure continued to be reported in petroleum refining, both in construction-type jobs and factory personnel. Two other manufacturers said they intend to give small raises in the near future.

**Manufacturing**  
Reports from manufacturers were mostly positive, with more reports of demand increases than in the last report, although some firms noted flat or weaker demand. Construction-related manufacturers said demand had generally increased over the last six weeks, although a few contacts said
winter weather, especially on the East Coast, was still having a lingering effect on business, although less so than during the prior reporting period. A lumber contact noted that demand was almost as strong as it was in 2006. Fabricated metals manufacturers reported a broad-based increase in demand, with particular strength in highway construction and energy-related projects. Outlooks for the second quarter were mostly positive.

Respondents in high tech manufacturing reported that overall demand continued to grow at a moderate pace, with a few respondents noticing a slight but broad-based pickup in orders growth. Demand for logic devices was strong while demand for memory devices continued to be weak. Firms’ outlooks were for continued moderate growth, with some increased optimism that growth would pick up slightly.

Transportation equipment manufacturers said demand held steady at high levels, and they expect business this year to exceed that of 2013. Food manufacturers reported a decline in demand that was largely weather related, but said demand was still above year-ago levels. Petroleum refinery utilization rates fell slightly over the reporting period, largely because of the start of the spring maintenance season and to a lesser extent due to the temporary closure of the Houston Ship Channel because of an oil spill. Margins for refineries and petrochemical manufacturers remained healthy.

**Retail Sales**  Retail sales were stronger this reporting period, and demand was up from a year ago. Demand in Texas continued to outperform the nation, according to two national retailers.

Automobile sales strengthened slightly since the previous report, as the weather improved and the spring selling season began. Demand was up slightly year over year. Inventories were mostly at desired levels to a little high; contacts attributed higher inventories to the loss of selling days earlier in the year because of the weather. Retail and automobile contacts’ outlooks for the upcoming quarter and the rest of the year were positive.

**Nonfinancial Services**  Nonfinancial services firms reported varying changes in demand from six weeks ago but were all optimistic in their outlooks for the months ahead. Staffing firms said demand was steady at high levels, with multiple contacts noting business was up more than 10 percent from last year. One firm cautioned that demand was shifting toward temporary placements rather than direct hires. Growth in the accounting sector slowed slightly over the reporting period due to seasonal factors, as the corporate tax return deadline passed in mid-March, but activity remained robust and above year-ago levels. Demand for legal services picked up, with particular strength in real estate business. Litigation ticked up in Austin but slowed elsewhere in Texas.

Transportation services firms noted mixed demand. Railroad, small parcel and air cargo volumes increased slightly while container and intermodal cargo volumes decreased. A small parcel firm noted
strength in retail trade, and a railroad firm noted increased volumes of crushed stone (largely used for road construction) but weakness in motor vehicle and drilling sand volumes.

Airline demand was slightly soft, partly due to numerous storms in the past six weeks causing cancelled business trips. Demand was stronger than a year ago and passenger revenue per seat mile is expected to be up in April and May across the industry.

**Construction and Real Estate**  The district housing sector remained strong over the reporting period. Single-family home sales volumes remained healthy, with some contacts reporting a seasonal pickup in demand over the past six weeks. Home prices continued to trend upward and inventories remained low. A contact in Dallas noted that low inventory levels were bidding up prices above asking prices in high-demand areas. Contacts expect demand for single-family homes to stay strong this year. Apartment demand remained solid. Construction activity continued at a brisk pace, especially in Austin. Rental rate growth accelerated in Dallas and Houston from already solid levels and was holding strong in Austin, according to contacts. The outlook for the multi-family market remained positive.

Office and industrial leasing remained robust, with one contact noting particularly strong demand for office space in Dallas. Rents continued to trend upward and occupancy levels remained high for office space. Contacts in Houston reported high levels of office development. Overall, the outlook remained generally positive and respondents expect demand to stay strong this year.

**Financial Services**  Growth in loan demand softened slightly in the last six weeks. Demand for commercial and residential real estate loans was weaker than expected, although it improved somewhat. Consumer loans continued to grow moderately, and lending to mid-sized firms continued to tick upward. Loan quality remained high. Deposit volumes were healthy and grew moderately. Contacts noted continuing frustration with regulatory burden, but outlooks remained optimistic.

**Energy**  Demand for oilfield services was very healthy in the Eleventh District over the last six weeks, particularly in West Texas. Much of the increase in U.S. drilling over the reporting period came from Texas. March demand exceeded expectations and led to improved second-quarter outlooks.

**Agriculture**  District drought conditions continued to worsen in March, particularly in the Texas panhandle which is where much of the state’s cotton is grown. Winter wheat crop conditions deteriorated somewhat. Agricultural commodity prices rose over the reporting period, with across-the-board increases in crop prices and particularly strong gains in livestock prices. Beef prices rose to record highs in March in light of strong exports and stable domestic demand coupled with tight cattle supplies. Dairy demand boomed, especially exports, and prices for dairy products moved to record highs. According to respondents, the rise in prices has allowed all segments of the livestock industry to be profitable, an occurrence not all too common.
Summary

Economic activity in the Twelfth District continued to improve moderately during the reporting period of mid-February through early April. Upward pressures on prices and wages were quite modest overall. Demand for consumer goods improved slightly relative to the prior reporting period, while demand for business and consumer services was mixed. The manufacturing industry appeared to gain some momentum. Demand for agricultural and resource-related products was largely stable, but weather-related factors held back production in some areas. Activity in residential and commercial real estate markets advanced further. Banking contacts reported that loan demand increased overall, notably from small business borrowers.

Prices and Wages

Price inflation remained subdued for most final goods and services. Contacts observed modest increases in dairy and protein prices. Reduced availability of water as a consequence of the drought in California is expected to put upward pressure on the prices of some fruits and vegetables in coming months. Prices edged up for some construction-related inputs, including wood and insulation. Reports indicated that wheat and coffee prices dropped. Final prices for steel products also fell.

Wage gains remained quite modest overall, but some contacts noted increases for certain occupations and in certain areas. Contacts observed rapid gains in compensation for software developers and engineers. As the cost of living climbed in major metropolitan areas, especially the San Francisco Bay Area, contacts reported stronger wage pressures for entry-level positions. The prospect of rising minimum wages triggered concerns about possible future labor cost increases for contacts in agricultural and construction businesses.

Retail Trade and Services

Retail sales improved a bit relative to the previous reporting period. Retailers continued to observe increasing online sales and declining traffic at malls. Retail grocers noted that the growth of e-
commerce and the entry of new firms into the industry have made the environment extremely competitive, and, as a result, some firms have shifted their product offerings in an effort to preserve gross margins. For example, one contact noted that traditional brick-and-mortar stores reduced inventories of baby products, which consumers tend to buy online. Reports from auto dealerships in the 12th District highlighted strong sales in the early part of the year, and contacts expect auto sales to remain strong over the next couple of years. Most contacts project consumer spending overall will improve or stay the same over the next 12 months.

Demand for business and consumer services was mixed. Reports indicated healthy overall conditions in the technology industry, with particularly strong demand for services related to network security, data analytics, and cloud-based infrastructure. Food service industry contacts noted that monthly same-store sales and transaction counts declined, especially at family and casual dining establishments. Providers of health-care services highlighted historically weak demand for semi-elective dermatological and allergy-related procedures. Contacts noted that the level of Hawaiian travel and tourism activity remained high in early 2014, although it was lower compared with the same period a year earlier.

**Manufacturing**

District manufacturing activity appeared to gain some momentum during the reporting period of mid-February through early April. The electronic components industry expanded at a pace consistent with its historical average. The sustained backlog of orders for commercial aircraft supported growth in the commercial aerospace industry. Launches of innovative products buoyed growth in the pharmaceutical industry. Defense-related manufacturers pointed to a recent pickup in new orders as a source of optimism. A utilities provider noted that year-over-year gas and electricity use expanded for various manufacturing customers, including food processors, metal producers, and wood product fabricators. Contacts noted that demand for steel production inputs improved from both domestic and foreign sources, particularly from Southeast Asia. Capacity utilization rates at U.S. steel mills held steady at low levels.

**Agriculture and Resource-related Industries**

Demand for most agricultural and resource-related goods was largely stable, but the supply was
somewhat constrained as several weather-related factors held back production. Demand was stable or up for assorted crop and livestock products and particularly robust for dairy items. However, storms in parts of the District disrupted transportation of winter vegetables. Contacts’ concerns about water costs and availability mounted, and limited water for irrigation contributed to decreased yields of annual crops, including tomatoes, greens, and onions, in California’s Central Valley. Water shortages led some farmers to reduce cattle herd sizes as well. Pork production fell as some hogs in the District contracted a fatal virus. Year-over-year growth of crude oil production increased robustly, outpacing year-over-year growth in demand for petroleum and gasoline.

Real Estate and Construction

Activity in residential and commercial real estate markets advanced further. Most contacts expect demand for residential real estate during the first half of 2014 to strengthen relative to the second half of 2013. Home prices across the District continued to move up. The pace of home sales varied across geographic areas; some contacts in California noted an uptick, while contacts from Washington observed a more sluggish pace. Construction of both single and multifamily units improved across the District, and almost all contacts expect housing starts to improve over the next 12 months. However, contacts in Utah, Washington, California, and Hawaii anticipated potential shortages of construction labor. Robust leasing activity in large urban areas drove up rental rates for both residential and commercial properties. Vacancy rates for commercial and industrial space were either stable or down in many areas. Contacts from Oregon noted that public-sector construction activity was somewhat slow, but in other areas such as the San Francisco Bay Area, Southern California, Honolulu, and Seattle, public infrastructure projects and a number of high-rise commercial construction projects have been announced or are under way.

Financial Institutions

Loan demand increased overall. Consumers exhibited solid demand for home and auto loans. Some contacts observed an uptick in loan demand from small businesses and increased loan growth at community banks. However, contacts noted that the availability of credit for small businesses largely remained limited to higher-quality borrowers. Lenders, flush with liquidity, continued to compete
vigorously on rates and terms for such borrowers. Contacts noted that some financial institutions also relaxed underwriting standards in an effort to win new business or maintain existing business relationships. The pace of initial public offerings in the District’s Internet and digital media sectors continued to pick up. Reports indicated that private equity and venture capital financing activity was strong in late 2013 and has appeared to hold steady in early 2014.