SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

November 2014
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SUMMARY

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand in October and November. A number of Districts also noted that contacts remained optimistic about the outlook for future economic activity. Consumer spending continued to advance in most Districts, and reports on tourism were mostly positive.

Employment gains were widespread across Districts, and Districts reporting on business spending generally noted some improvement. Demand for nonfinancial services generally increased. Manufacturing activity strengthened in most Districts. Construction and real estate activity expanded overall, but at a pace that varied by sector and by District. Lending typically held steady or increased. Crop yields were generally good, although overly wet or dry conditions were an issue in some Districts. Most crop prices were lower than last year, but livestock prices were higher. Energy and mining activity was higher on net, though lower oil prices were a concern for the oil industry in the Atlanta and Dallas Districts. Overall price and wage inflation remained subdued.

Consumer Spending and Tourism. Consumer spending continued to trend higher in most Districts in October and November. Some contacts viewed lower gasoline prices as a contributing factor to higher consumer spending, and an early cold spell helped spur sales of winter apparel in several Districts. Both the Richmond and San Francisco Districts pointed to durable goods purchases as a source of strength. Restaurant sales were up in Cleveland and San Francisco but down in Kansas City. Retailers in many Districts were optimistic about the upcoming holiday season. Auto sales were particularly strong in Richmond, Atlanta, Chicago, and San Francisco, and lower gasoline prices boosted sales of SUVs and light trucks in Philadelphia, Cleveland, and Chicago.

Tourism reports were mostly positive for the reporting period. Early-winter weather conditions boosted activity in Richmond and Minneapolis as some ski resorts were able to open early. Richmond and San Francisco reported rising hotel occupancy rates and Philadelphia noted an increase in hotel revenues. Contacts in the Atlanta District noted an increase in the number of domestic and international visitors relative to last year and strong advance bookings for hotels.

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and conferences for the first half of 2015. New York indicated that tourism was generally steady at a high level, with Broadway theater attendance and revenues moderately higher than a year ago. In contrast, tourism activity decreased further in the Kansas City District, but was expected to improve modestly in coming months.

**Hiring and Business Spending.** Employment gains were widespread across Districts in October and November. Boston reported increased employment in the software and IT sectors, and New York noted that financial firms were hiring more workers. Cleveland indicated that manufacturing, construction, and freight transportation payrolls were increasing, and Richmond cited stronger hiring by service-sector firms. Atlanta reported sizable gains in leisure and hospitality employment. Several Districts noted an increase in temporary staffing as well as an increase in temporary-to-permanent job transitions. Hiring plans increased in New York, Chicago, and St. Louis. With labor market conditions strengthening, contacts in the Kansas City and Dallas Districts noted that firms were having increased difficulty retaining key workers. Various Districts continued to report that firms had difficulties filling positions in IT and engineering, legal and health-care services, management, skilled manufacturing and building trades, and transportation and warehousing. Most Districts reported little change in holiday-related hiring relative to last year, though there were some reports of slightly higher rates of seasonal hiring in New York and Chicago.

Districts reporting on business spending noted some improvement overall. Inventories were generally reported to be in line with sales. Richmond and Chicago noted some precautionary inventory building by retailers and manufacturers as insurance against another harsh winter. Reports on capital expenditures, both current and planned, were generally positive. Boston and Cleveland reported that retailers were investing in IT equipment and software to support e-commerce. Manufacturers in several Districts were expanding capital budgets both to replace existing equipment and to expand capacity. Freight companies in the Cleveland District were holding to plans to gradually replace an aging fleet and expand capacity. St. Louis and Minneapolis noted an increase in planned capital spending by service-sector firms. Cleveland, Richmond, Chicago, and Dallas cited an increase in mergers and acquisitions.

**Nonfinancial Services.** Demand for nonfinancial services rose in a number of Districts in October and November. Several Districts reported broad-based growth in demand for staffing services. Growth in professional business services fell in Kansas City, but the Richmond District
reported gains in accounting business and Dallas experienced expansions in legal and insurance services. Demand for technology services rose in the Boston, St. Louis, Minneapolis, and San Francisco Districts. San Francisco reported strong demand for cloud computing services. Growth in transportation services was uneven across Districts, but Cleveland continued to report strong demand, to the extent that shippers were running into capacity constraints. Various Districts reported increases in shipments of agricultural products, industrial machinery, oil and gas production materials, appliances, apparel, auto parts, e-commerce goods, and steel. Richmond reported increased port activity, especially for imports, but a decline in coal exports.

Manufacturing. Manufacturing activity generally advanced during the reporting period. The automotive and aerospace industries continued to be sources of strength. Steel production increased in Cleveland, Chicago, and San Francisco. Fabricated metal manufacturers in the Chicago and Dallas Districts noted widespread growth in orders. Dallas reported that domestic sales for plastics were strong, while demand for plastics was steady in Richmond and declined in Kansas City. Chemical manufacturers in the Boston District indicated that the falling price of oil relative to natural gas had made U.S. producers less competitive, because foreign chemical producers rely more heavily on oil for feedstock and production. St. Louis, Minneapolis, and Dallas reported that food production was little changed on balance, but production in Kansas City continued to decline. Chicago and Dallas indicated that shipments of construction materials increased. Manufacturers of heavy machinery in the Chicago District cited improvements in sales of construction machinery, but reported ongoing weak demand for agricultural and mining equipment. High-tech manufacturers in Boston, Dallas, and San Francisco noted steady growth in demand. Biotech revenue increased in the San Francisco District.

Construction and Real Estate. Construction and real estate activity expanded overall in October and November, but saw a fair amount of variation across sectors and regions. Residential construction increased on balance across the Districts and multifamily construction remained stronger than single-family construction in a number of Districts. Reports on residential real estate activity were mixed. About half of the Districts reported an increase in home sales. Many Districts indicated that sales in the multifamily sector were stronger than sales in the single-family sector. Home prices were little changed in most Districts, although prices increased in the Richmond, Atlanta, Dallas, and San Francisco Districts. Nonresidential construction rose in most Districts. Construction of office space was relatively strong in some
large urban areas, such as New York City and Philadelphia. Industrial construction was particularly strong in the Cleveland, Chicago, and Dallas Districts. Commercial real estate activity also increased in many Districts, with declining vacancies and rising rents for office space; especially strong activity was noted in the central business districts of some large urban areas. Vacancies for commercial and industrial space also dropped in several Districts.

**Banking and Finance.** Lending activity improved on net. A few Districts noted aggressive competition on loan pricing and terms or an easing of loan standards. Business lending increased for most types of loans. Boston, New York, and Richmond cited an increase in demand for commercial mortgages, and commercial and industrial lending increased in Philadelphia and St. Louis. San Francisco reported an increase in demand for small business refinance loans and noted private financing activity and venture capital activity were both strong. Chicago also cited stronger loan demand from small businesses for financing equipment and structures. Dallas indicated that real estate lending increased, with strength reported in loans for both single-family and multifamily construction projects. In contrast, Kansas City reported lower demand for agricultural loans, and Chicago noted lower utilization of credit lines for working capital. Consumer lending also increased. Several Districts reported continued strength in demand for auto loans. Richmond, St. Louis, and San Francisco noted an increase in credit card lending. Residential lending increased in a number of Districts, reflecting a mix of new mortgages, refinancings, and home equity lines of credit. Cleveland and Richmond indicated that first-time homebuyers continued to face challenges in qualifying for mortgages, although contacts in Boston were optimistic that the new Qualified Residential Mortgage rule would be helpful in this regard.

**Agriculture and Natural Resources.** Agricultural conditions were mixed across the Districts. Livestock operations were more profitable than a year ago; but with crop yields generally at above-average to record-high levels, lower crop prices were depressing farm incomes. Harvests were ahead of their normal pace in most Districts reporting on agriculture. However, excess moisture delayed harvests in some Districts, affected the quality of cotton in the Dallas District, and damaged wheat and barley crops in the San Francisco District. In contrast, drought conditions affected the Richmond, Atlanta, and San Francisco Districts, as well as parts of the Dallas District. Dry weather delayed tree harvests in Richmond, even as Christmas orders picked up. Compared with a year ago, prices were lower for corn, soybeans, wheat, and hay, but
higher for milk, dairy, poultry, hogs, cattle, and tomatoes. Livestock producers benefited from lower feed costs, and Chicago and Kansas City noted expansions in cattle herds. Richmond and San Francisco reported increased exports of agricultural products, but Dallas reported lower dairy exports.

Natural resource activity was strong overall. Oil and natural gas exploration, drilling, and extraction remained at high levels in the Cleveland, Richmond, Minneapolis, Kansas City, and Dallas Districts, with expansions in drilling activity in Kansas City and Dallas. Atlanta reported that the recent drop in oil prices led firms to reevaluate their operations, though steady production is anticipated for both deepwater and onshore drilling; in the Dallas District, lower oil prices weighed on the outlook for drilling activity. Natural gas prices decreased slightly as inventories grew. Coal production in the Cleveland and St. Louis Districts was up from a year ago. Since the previous report, mining activity increased in the Minneapolis District. Healthy demand for timber was noted by San Francisco, leading to increased shortages of equipment and skilled loggers.

Prices and Wages. Overall price and wage inflation remained subdued in October and November. Price increases for raw materials were generally muted, though there were some exceptions, such as prices for certain agricultural products and building materials. Several Districts cited the decline in the price of oil over the reporting period and its effects on gasoline and diesel fuel prices. However, transportation costs rose in some Districts where capacity constraints were an issue. Chicago and San Francisco reported lower steel prices, but Dallas noted an increase in fabricated metals prices. Pass-through of higher costs to downstream prices remained limited, although Chicago, Minneapolis, and Dallas reported an uptick in the number of firms raising or expecting to raise prices. New York and Cleveland noted an increase among retailers in holiday promotional activity relative to last year, and Philadelphia indicated that retailers would be using promotions to extend the shorter-than-usual holiday shopping season.

A number of Districts reported slight to moderate increases in labor costs during the reporting period. Upward wage pressures continued to be evident for certain types of occupations and for skilled workers. New York, Chicago, and San Francisco reported that employers were adjusting compensation to win well-qualified job candidates or to retain or give raises to high-value, long-term existing employees. In addition, Atlanta noted nascent signs of wage pressures for lower-skilled jobs, whose wages have been flat for several years. Minimum wage increases
were said to be a source of higher labor costs in the Boston, Cleveland, and San Francisco Districts. Boston, Chicago, and Dallas noted actual or prospective increases in health insurance costs; in contrast, San Francisco indicated that increases in health insurance premiums for the coming year were low by historical standards. Some of the higher costs associated with health care were reportedly being passed on to employees.
Business contacts in the First District indicate that activity is generally increasing. With a few exceptions, retailers and manufacturers report year-over-year increases in sales or revenue. Firms in both staffing and software and IT services cite solid or strong demand as they did when contacted three months ago. Most commercial real estate markets in the region continue to expand modestly, while residential real estate markets remain unsettled, with most of the New England states seeing increases in the number of homes sold and declines in median sales prices from a year earlier. Net hiring is occurring in the sectors with more robust demand; pay levels are rising somewhat for temps but are generally flat in software and IT services. Some manufacturers and retailers cite modest price increases, while software and IT services firms are holding prices steady.

Retail

Retail firms contacted this round report year-over-year increases in total sales ranging from zero (flat) to 6.5 percent. Their year-over-year comparable-store sales results are more varied, ranging from down 4 percent to up 7.5 percent. Inventories are well-managed. Some contacts report that their prices remain steady, while others indicate prices of some items are going up a bit. The reasons given for these modest price increases include passing on higher vendor prices and paying for increases in the minimum wage. Retailers are continuing to invest in software and support for online selling channels.

All respondents say that they have seen continuing improvement in sales over the course of the year, that consumers appear to be more confident, and that the U.S. economy seems to be experiencing a real, albeit modest, rise. Contacts expect the holiday sales season to continue this positive momentum.

Manufacturing and Related Services

Of ten manufacturers responding this cycle, eight firms report stronger sales than a year earlier. The two citing weaker sales are both in semiconductor-related industries. One, a maker of testing equipment, is actually very positive about sales, saying that as long as people want smart phones, there will be strong demand for semiconductor testing equipment. The other is in the semiconductor manufacturing equipment business and is also quite optimistic overall. Manufacturing contacts generally say North America is an area of strength and Europe and Latin American are relatively weaker. A manufacturer of construction tools says the strengthening dollar is a “headwind” and has revised sales growth down slightly as a result. Firms report no significant movements in inventories. Capital spending is up, but more or less in line with plans at all contacted firms.

The pricing environment is reportedly benign. Raising prices is not easy, but firms do not report tremendous pressure to cut prices. Costs are said to be under control as well. One firm in the chemical industry cites falling oil prices as a problem because chemicals are produced in the United States using natural gas whereas in the rest of the world, they are produced using oil. As a result, the fall in oil prices over the last few months has made foreign rivals more competitive, partly reversing U.S. chemical firms’ prior advantage resulting from declines in the price of natural gas relative to oil in recent years.

None of our contacts reports large increases or decreases in employment. A manufacturer of health and fitness equipment successfully hired technically skilled workers but only with great difficulty. A defense contractor says uncertainty about the federal budget makes workers reluctant to accept offers
from them. A maker of medical equipment indicates that recent wage increases are at the higher end of their normal range. In general, responding manufacturers have a positive outlook on business conditions.

**Software and Information Technology Services**

First District software and information technology services contacts generally report strong demand in recent months, with most citing revenue increases of 7 percent to 20 percent year-over-year. This sustained business growth is attributed to the improving macroeconomy, strength in the manufacturing sector, and high consumer demand for software products currently on the market. Only one contact—in the healthcare sector—reports a decrease in year-over-year nominal revenue, reflecting the expiration of federal stimulus related to health records software. Selling prices have generally remained stable. Most firms are adding to their headcounts through acquisition, increased utilization of contractors, or overall business expansion. Wages have largely remained constant in recent months. One contact notes upward wage pressure for higher-level R&D and sales positions for which demand exceeds supply. Most firms are holding capital and technology spending steady, with one firm increasing spending to introduce a new software platform. Looking forward, most contacts are optimistic about current trends continuing; they expect flat to high-single-digit year-over-year revenue growth. Some respondents express concerns about continued weakness in Europe and Asia, stock market volatility, and the overall macroeconomy.

**Staffing Services**

New England staffing contacts generally report increased business activity through November, with all but one contact citing a year-over-year increase in revenue. This uptick in demand reportedly reflects growth in the healthcare sector and improved business confidence. Furthermore, several contacts note increases in both direct hiring and the temporary-to-permanent conversion rate. Labor demand is strong, with increases for a variety of positions across the healthcare, commercial real estate, legal, customer service, manufacturing, and warehousing sectors. Contacts say labor supply continues to be tight, particularly for IT, legal, and nursing occupations. Their strategies to attract top candidates include networking, social media outreach, online recruiting, and offering modest wage premiums. Both bill and pay rates have trended upward in recent months. Most contacts are more optimistic than three months ago about the rest of the year, with year-end revenue growth forecasted to be in the low-to-high single-digit range. The main factors expected to affect business in upcoming months are winter and holiday seasonal effects, availability of workers, and health insurance costs from the Affordable Care Act.

**Commercial Real Estate**

Commercial real estate market trends in the First District are mostly unchanged since the last report. According to contacts, Boston’s office market continues to see declining vacancy rates and modest rent increases. Investor demand for office and multifamily properties in Greater Boston remains very robust. A Rhode Island contact says business sentiment is improving based on beliefs that the newly elected governor will focus on job creation. Office leasing activity in Providence saw a modest rebound following a dip late in the third quarter, with robust demand in the Class B sector; there are, however, some concerns about plans among Class A office tenants to reduce space needs in 2015. Construction activity remains limited in the state, but includes a growing amount of build-to-suit activity in the industrial sector. In Hartford, market fundamentals are unchanged amid flat leasing demand, and there is
no new construction activity. In Portland, investment sales increased across diverse property types and industrial leasing activity picked up since the last report, while office market fundamentals—including vacancy rates and rents—are roughly unchanged since one year ago and office leasing activity held steady in recent weeks. A few new infrastructure projects and some industrial construction activity are underway, and set to increase, along Portland’s waterfront. A regional banking contact saw a modest increase in commercial real estate loan inquiries, including an uptick in loan demand for industrial properties in the Boston area; at the same time, he reports that the flow of lending activity at his bank is below its year-ago level.

The outlook remains largely optimistic for the Boston and Portland commercial real estate markets. For Rhode Island, a modestly optimistic outlook for commercial real estate demand was qualified by contacts citing risks to the state’s overall economic fortunes, including a looming state budget deficit. In Hartford, a contact foresees slow-to-negligible growth in economic activity and accordingly slow improvement in commercial real estate fundamentals.

Residential Real Estate

In September, closed sales of single-family homes increased from a year earlier in four of the six New England states. Massachusetts experienced declining year-over-year sales for an eighth consecutive month; contacts in New Hampshire were unavailable to provide data. The median sales price for single-family homes decreased in three of the four states with sales increases; Maine was the exception, with a year-over-year increase in median sales price. Prices in Massachusetts remained flat, ending 23 consecutive months of year-over-year price rises. Massachusetts contacts say buyers are not willing to overextend themselves financially as home prices move higher, but some expect prices to remain flat, some say they will decline, and others expect an increase in the coming months; among the latter, one contact notes that preliminary October data show a modest increase in price compared to October 2013. Scarcity of inventory remains a concern in Massachusetts, with another consecutive month of year-over-year declines in inventory. Contacts in Massachusetts say new listings are insufficient to meet demand; they emphasize a need for new construction and for more sellers to list properties. By contrast, inventories are plentiful in Vermont, where there is more than 20 months of supply; realtors typically say a market is balanced when there is six months of supply—the current level in Rhode Island. Contacts across the First District believe recent market trends will continue in coming months.

In the condominium market, September sales were mixed across the region, decreasing in Rhode Island, Massachusetts, and Maine, while increasing in Connecticut and Vermont compared with a year earlier. The change in median sales prices of condos also varied across the region, with year-over-year increases in Rhode Island, Maine, and Vermont, but decreases in Connecticut and Massachusetts; this represents the first price decrease for condos in Massachusetts after 15 months of increases. As with single-family homes, condo inventory remains a concern in Massachusetts, where year-over-year inventory decreases have continued for almost four years.

Residential real estate contacts say they are generally content. Many contacts are optimistic about the new Qualified Residential Mortgage rule, expecting it to ease down payment and credit score requirements and thereby help qualified consumers afford and purchase a house.
SECOND DISTRICT--NEW YORK

Growth in the Second District’s economy has picked up to a moderate pace since the previous report. Businesses report that cost pressures have abated somewhat, while selling prices are steady to up slightly. Service sector contacts indicate that business has picked up further since the last report, and manufacturers report modest improvement. Labor market conditions have continued to strengthen in recent weeks. General merchandise retailers report that sales have continued to trend up moderately, but auto dealers report that sales softened somewhat. Tourism activity has continued to show strength. Housing markets have shown signs of softening since the last report. Office markets have been generally steady, though the market for industrial space has strengthened. Finally, banks report increased demand for commercial mortgages, narrowing loan spreads for all types of loans, and continued declines in delinquency rates.

Consumer Spending

General merchandise retailers say that sales have continued to trend up, running moderately ahead of 2013 levels. Sales came in slightly below plan in October—restrained by unseasonably warm weather—but slightly ahead of plan in early November. The snowstorm that hit large parts of metropolitan Buffalo in mid-November shut down many retailers and disrupted supplies, but the overall effect on sales remains to be seen. The pricing environment is described as more promotional than last year. Retailers are building inventories in advance of the upcoming holiday season.

Reports from auto dealers across upstate New York indicate that sales were flat to down somewhat since the last report, even before the winter storm. Rochester-area dealers continue to characterize new vehicle sales as essentially flat in October and early November. However, Buffalo-area dealers report that new vehicle sales weakened in October and November. The used-car market was also mixed, with Buffalo-area dealers describing sales as soft but Rochester-area dealers
characterizing them as improving. Auto dealers in both areas note that both wholesale and retail credit conditions remain in good shape.

Consumer confidence in the region rebounded strongly in October: The Conference Board’s survey showed confidence rebounding to its highest level in more than a year in both New York State and the broader Middle Atlantic region (NY, NJ, PA). Tourism activity has been mixed but generally steady at a high level. Broadway theaters report that attendance and revenues continue to run moderately ahead of comparable 2013 levels.

**Construction and Real Estate**

The District’s housing markets have taken on a somewhat softer tone in recent weeks. New York City’s residential rental market has shown signs of softening: Rents in Manhattan and Brooklyn are reported to be steady to down slightly from a year ago, though they continue to rise modestly in Queens. Overall, New York City’s co-op and condo market showed continued strength in October and early November—sales activity was down modestly from a year earlier but was still described as brisk, and lean inventories and strong demand continued to nudge up prices, which are reported to be running about 5 percent higher than a year ago. Single-family markets in Long Island and Staten Island—as well as in northern New Jersey, where there remains a large overhang of distressed properties—have lagged somewhat. The Buffalo-area market is characterized as having shifted from a seller’s market to one that is more balanced, with sales activity leveling off and inventories continuing to build. Across New York State more broadly, the median selling price for single-family homes has edged down in recent months and was down slightly in October relative to a year earlier. New single-family construction activity has been sluggish, while multi-family construction has been robust.

Commercial real estate markets have generally remained steady thus far in the fourth quarter. In Manhattan, office availability rates edged down to a six-year low, while asking rents leveled off
and are up about 2 percent since the beginning of the year. Elsewhere around the New York City metropolitan region, office availability rates and asking rents were generally flat, except in northern New Jersey, where rents were up slightly. Office markets were also stable across most of upstate New York, except for metropolitan Buffalo, where the office availability rate has climbed to a multi-year high. Although a number of major office developments are under construction in New York City, new starts for office construction remain fairly depressed across the District. The market for industrial space has been a bit more robust: Asking rents are up from a year ago throughout the region, while availability rates have fallen to multi-year lows in and around New York City and have edged down in upstate New York. New starts for industrial construction have increased in recent months and are up from a year ago.

**Other Business Activity**

Service-sector firms across the District report increasingly widespread growth in business activity, though manufacturing firms report that activity has expanded at a subdued pace. Nevertheless, contacts in both sectors express increasingly widespread optimism about the near-term outlook. Manufacturers generally report that selling prices remain flat, while service firms report modest increases; contacts in both sectors note that input price pressures overall have abated since the last report.

The labor market has continued to strengthen since the last report, with some reports of increased wage pressures. One employment agency contact reports that the labor market seems to be doing well but notes that it is difficult to gauge in light of the slowdown in permanent hiring that usually occurs before the holiday season. This contact also notes that employers are becoming more flexible on salaries and is optimistic about the outlook for 2015. Another major employment agency in New York City describes the job market as exceptionally strong and notes that qualified candidates are getting multiple offers; as a result, employers must often be willing to negotiate on
pay and act quickly to fill job openings. In particular, financial firms are reported to be hiring more workers. One employment industry contact construes that retailers are hiring more seasonal help than last year, though a major retail chain indicates that it plans to hire about the same amount of seasonal help as in 2013. More generally, considerably more business contacts now say they plan to expand than reduce staffing levels in the year ahead.

**Financial Developments**

Small- to medium-sized banks across the District report increased demand for commercial mortgages but steady demand for other categories of loans. Bankers report little change in demand for refinancing. Credit standards continue to be reported as little changed across all loan categories. Respondents indicate that spreads of loan rates over cost of funds have declined across all loan categories, with the decrease most prevalent in commercial mortgages. Finally, bankers report ongoing decreases in delinquency rates across all loan categories.
THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period, with several notable shifts in the growth rates of specific sectors. Manufacturers reported moderate growth (a faster pace than the modest rate of the previous period). Staffing firms reported a moderate pace of growth, as did service-sector firms generally. Nonauto retailers reported modest growth (stronger than last period), auto dealers reported moderate growth (slower than last period), and tourism activity continued at a modest pace. Residential builders reported a slight decline in contract sales of new homes, while brokers noted a slight increase in existing home sales (sales of new homes had risen slightly during the past period, and existing home sales had been flat). The commercial real estate sectors reported modest growth for construction and for leasing of existing commercial properties, which was somewhat faster than in the prior period.

Lending volumes grew at a modest pace (a slight acceleration from the prior period), and credit quality continued to improve, while contacts continued to describe heated price competition for loans. Overall, contacts reported slight increases in wages, home prices, and general price levels that were similar to those reported for the previous Beige Book period. Contacts continued to anticipate moderate growth of economic activity over the next six months.

Manufacturing. Third District manufacturers reported that activity has continued to grow since the previous Beige Book and that the pace has increased to a moderate rate. Similarly, firms reported strengthening of new orders and shipments, with a greater percentage of firms reporting increases and a smaller percentage of firms reporting decreases. Gains in activity continued to reflect relatively broad-based demand. Ongoing strength was mentioned by intermediate producers serving the automotive and commercial aviation sectors. Increased demand was reported to be coming from government expenditures on public infrastructure, especially bridges, and military spending. A chemical firm reported growing demand for products used for medical diagnostics but flat demand for lab chemicals.

For the third consecutive Beige Book period, well over half of Third District manufacturing contacts expressed expectations of positive future growth during the next six months; less than 10 percent expected activity to decline. Firms also continued to report that they expect to increase employment levels and capital spending.

Retail. Third District contacts reported modest growth in nonauto retail sales since the prior Beige Book period, a somewhat faster pace than before. As with fall apparel, a recent cold snap is now helping to move winter product lines, although retailers continued promotions in order to capture market share. An operator of area malls reported that traffic has improved relative to last year, with shoppers spending a higher average amount, and that department stores
seem to be doing better. An operator of outlet malls cited favorable weather and low gas prices as factors driving its strong October and November sales. Overall, contacts were optimistic that they would see a slight improvement in sales in the upcoming holiday season compared with last year. Retailers reported holding more promotions prior to Thanksgiving and planning more promotions for after Christmas to compensate for this year’s shorter shopping period between Thanksgiving and Christmas. Pennsylvania analysts are anticipating that this may be the first year in which a majority of households eat their turkey and pumpkin pie at restaurants rather than at home.

Auto dealers reported moderate growth in sales year over year. A Pennsylvania contact described sales levels throughout the state as steady from August through October after reaching a record high in July. Statewide sales in New Jersey are nearing their pre-recession peak of a half million vehicles per year. Falling gas prices have shifted sales away from cars and toward light trucks and SUVs. Early reports of November sales were described as “very good” in New Jersey and in Pennsylvania. Dealers continued to express optimism for ongoing sales growth into 2015.

**Finance.** Third District financial firms reported modest increases in total loan volume, a somewhat faster pace than that reported in the previous Beige Book. Volumes increased most for commercial and industrial loans and for some consumer credit lines, including home equity but excluding credit cards. Contacts reported little change in volumes of home mortgages and commercial real estate. Contacts reported ongoing credit quality improvements and intense price competition for creditworthy loan prospects. Contacts described seeing and sensing continued strengthening of the economy. One bank contact reported that his bank’s personnel and many of its customers had feelings about the economy that were “close to optimism.” Many firms have rebuilt strong balance sheets, accelerated maintenance schedules, and increased their productivity, yet lack sufficient confidence to take on the added risk of expanding capacity, according to this contact.

**Real Estate and Construction.** Third District homebuilders have reported lower traffic and declining numbers of contract signings since the previous Beige Book period. Builders report that first-time homebuyers remain scarce and that contracts for new homes with existing homeowners are often burdened by contingencies to sell their current home. Builders are entering a seasonally slow period that will likely extend over the remainder of the year; contacts reported starting some additional homes on spec to maintain sufficient activity for their construction crews. Although existing home sales tend to decline at this time of year, residential real estate brokers observed that sales were greater than expected. On a year-over-year basis, closings and pending sales are turning positive again in most major markets. Brokers continued to note some difficulties with buyers securing financing and with contingent contracts as buyers struggle to sell their own homes. Brokers do not expect overall sales in 2014 to surpass 2013 levels, but remain optimistic for a return to growth in 2015.
Construction and leasing reported by nonresidential real estate contacts have picked up to a modest pace of growth since the previous Beige Book period. Demand continues for new industrial/warehouse projects along the I-81/I-78 corridors. Recently, several major projects have broken ground in Center City Philadelphia; contracts have been signed and skilled tradespeople have been hired. An architecture and engineering firm reported ending its best year in the firm’s history and that it expects to do more hiring in 2015. Contacts continued to report incremental improvements in leasing activity in downtown and suburban Philadelphia, especially for office, residential, and retail spaces in Center City Philadelphia.

**Services.** Third District service-sector firms have continued to report moderate growth in activity since the previous Beige Book. About half of all firms reported increases in new orders and sales. A large service contractor reported that new business opportunities were expanding, especially in the private sector. However, competition also remains strong with some projects lost to lower bidders. Staffing contacts in eastern and central Pennsylvania continued to report moderate increases in hiring for both temporary and permanent positions. Staffing requests have been broad-based and reflect business expansions as well as replacement hiring. Staffing firms remained upbeat about prospects for the remainder of this year. Overall, about three-fourths of all service-sector contacts reported expectations that growth trends will remain positive over the next six months; only a few anticipated declines.

Most Third District tourist areas continued to benefit from great weather conditions throughout the fall. Contacts reported modest revenue gains overall, especially for hotels and restaurants. Visitors were still spending too little to make shore retailers happy. Early estimates by tourism contacts suggested that the remaining Atlantic City casinos may have absorbed about half of the revenues from three closed casinos and a much smaller percentage of employees. Most of the effects of the layoffs were felt within the immediate Atlantic County area. However, contacts throughout southern New Jersey anticipated some small effect from the reduced purchasing power of these laid-off workers.

**Prices and Wages.** Overall, Third District contacts reported little change to the steady, slight pace of price level increases that was seen in other recent Beige Book periods. About one-fifth of manufacturing contacts and one-fourth to one-third of service-sector contacts reported an increase in prices paid and received. Nearly three-fourths of manufacturing contacts reported no change in these prices, as did over one-half of nonmanufacturing contacts. Contacts from staffing and other firms noted little significant change to the slight wage pressures evident during the previous period. Brokers continued to report slight overall increases in home prices. The potential for falling gasoline prices to loosen consumers’ pocketbooks sparked comments from retailers, brokers, and tourism contacts. Otherwise, few contacts reported material changes in wages or prices.
FOURTH DISTRICT – CLEVELAND

On balance, the Fourth District’s economy expanded at a modest pace during the past six weeks. Manufacturers reported that business activity increased at a modest rate. Demand for nonresidential construction strengthened, while the residential market was stable. Consumer spending at retail outlets grew slowly, and year-to-date auto sales posted moderate gains compared to 2013. District coal production is up slightly year-over-year, while shale gas activity remains at a high level. Freight shipments were strong, but capacity constraints are limiting growth. The demand for business credit moved higher, and consumer lending held steady.

Payrolls showed a mild increase, primarily in manufacturing, construction, and freight transportation. Staffing firms reported that the number of job openings and placements has fallen, which they attribute in part to seasonal effects. Because of shortages of certain types of skilled workers, upward pressure on wages is being felt by general building contractors, subcontractors, and freight haulers. Overall, input and finished goods prices were stable. There were scattered reports of rising prices for some metal and agricultural products and building materials. Transportation costs rose.

Manufacturing. District factories reported that demand ranged from stable to showing modest growth since the previous report. Year-to-date results were generally better compared to those in 2013, with several contacts citing organic growth as a contributor. Our contacts are fairly optimistic and expect moderate to strong growth in 2015, though some expressed concern about the strengthening dollar and weakening foreign economies. On balance, steel shipments showed a modest improvement since the last report; total volume (tonnage) for 2014 is expected to be slightly higher compared to the previous year. Manufacturers and steel producers reported that the strongest demand came from the motor vehicle, nonresidential construction, and oil and gas industries. Year-to-date auto production through October at District assembly plants was more than 5 percent higher compared to the same period in 2013.

Most of our contacts reported that capital spending in the current fiscal year is in line with budgeted amounts. Fiscal year 2015 budgets are expected to be higher, with monies being allocated mainly for new equipment and expansion of plant footprints. In general, input costs were stable during the past six weeks, though we heard reports about rising steel, coffee, and sugar prices and significantly higher costs associated with transportation. Finished goods prices held steady. Several contacts noted that it remains difficult to pass through any cost increases. Little change in labor conditions was reported: The pickup in new hiring that began in the middle of the year continued and finding skilled workers remains a challenge. Wage increases in 2015 are projected to range from 2 percent to 4 percent.

Real Estate and Construction. Sales of new and existing single-family homes varied across geographic markets during the past six weeks. Several builders and real estate agents, who experienced slow sales during the summer, reported rising activity in September and October. In total, home sales showed a modest decline in the fourth quarter when compared to the third quarter. A couple of builders noted that they believe the decline is more than a seasonal effect. Reports on year-over-year home sales were mixed. Most builders expect that activity will stay at current levels, though they expressed concern about a potential rise in interest rates, continued
strict lending standards, and rising development costs. Multifamily development remains strong. New-home contracts were mainly in the move-up price-point categories. First-time buyers still have difficulty qualifying for mortgages. A majority of builders reported raising prices on homes during the past couple of months in response to increased costs for labor and materials. The upward trend in selling prices of existing homes has flattened out, but the current average price remains higher than the average level for 2013 by a few percent.

Nonresidential builders reported continued strong pipeline activity, and most indicated that the level of activity has increased relative to a year ago. Vacancy rates in existing retail, office, and warehouse space are on the decline. For the most part, general contractors are satisfied with their backlogs going into 2015. Market demand is broad based, although demand from shale-gas producers and for industrial space (manufacturing and distribution) is strongest. There has also been a pickup in requests for commercial space. On the downside, we heard a few reports about private capital being readily available so construction could proceed, but owners are reluctant to move projects into the construction phase because of uncertainty about the economy. Government-sponsored building activity remains relatively weak in some parts of the District. Most builders remain optimistic, but they are concerned about the availability of skilled labor, tight margins, the viability of the subcontractor market, and their own capacity constraints.

General contractors are not overly concerned with rising prices for building materials, but they did note large price increases for concrete and drywall and smaller price increases for steel products. Transportation costs are rising, reflecting capacity constraints among trucking and rail carriers. A majority of general contractors reported that they expect to increase their payrolls in future months in response to rising demand and to expand capacity. Subcontractors are pushing through rate increases at a faster pace than general contractors had anticipated; these increases are needed to cover rising costs, including for labor and to widen margins. As a result, general contractors, who remain under pressure to keep their rates down, are facing additional margin compression.

**Consumer Spending.** Spending at many retail outlets rose slightly since the last report. Nevertheless, retailers observed that even though lower gasoline prices are helping to boost spending, consumers are more interested in buying motor vehicles and experiences, such as vacations, rather than merchandise. On balance, same store revenues were flat relative to a year ago. Cold weather apparel is in demand and restaurateurs reported rising sales, especially in their take-out business. The outlook for the holiday shopping season is for revenues to be slightly higher than last year. Vendor and shelf prices held steady. Restaurant operators noted that they are raising their prices for menu items that use animal products. Retailers are running more promotions than usual to entice consumers back into their stores. Capital budgets for the 2015 fiscal year will be maintained at current-year levels or reduced. Monies are being moved from brick and mortar to ecommerce. Excluding temporary seasonal hiring, retail payrolls were stable. Reports indicated higher labor costs due to minimum wage increases and more competition for hourly employees, which was attributed to the improving economy.

New motor vehicle sales increased from September to October. Unit volume year-to-date was more than 5 percent higher compared to the same time period in 2013. Strong sales of SUVs
and trucks continued; this strength was attributed to lower gas prices and strength in the
construction industry. Some dealer inventory is high at this time because recent recalls have
prevented certain models from being sold to the public. Demand for service technicians is up
because of the recalls. Dealers project unit volume for all of 2014 will be 5 percent to 10 percent
higher than in 2013, with sales being highly dependent on dealer and manufacturer incentives
and the availability of leasing. Used-car purchases showed a moderate increase since the last
report, and used-car prices are starting to decline.

**Banking.** Bankers reported that demand for business credit was showing modest to
moderate growth during the past six weeks. While demand was described as broad based, it was
strongest for commercial real estate development, multifamily housing, and mergers and
acquisitions. We heard several reports of large regional and national banks establishing a
presence in smaller markets traditionally served by community banks. On net, consumer credit
demand was roughly stable. The number of applications for auto loans remains strong, while
households are making marginally greater use of credit cards and home equity products. Though
the pricing environment remains competitive, interest rates were mainly steady for business and
consumer credit and for residential mortgages. Delinquency rates are improving across loan
categories. No changes were made to loan-application standards since the last report. Deposits
were described as strong and growing. Little change in payrolls is expected in the near term.

**Energy.** Year-to-date coal production across the District is slightly above prior-year
levels. Output is projected to increase in Pennsylvania and northern West Virginia with no
material change expected in eastern Kentucky and Ohio. The downward trend in spot prices for
thermal and metallurgical coal is showing signs of flattening out. Activity in the Marcellus and
Utica shale formations remains at a high level. We heard several reports indicating that although
there is some financial belt-tightening by exploration and production companies, drilling
programs should continue in most regions even though medium-term projections for oil and gas
prices are at low levels. One industry executive reported that some investment will shift away
from Pennsylvania to Ohio and West Virginia because the latter two states are rich in wet gas,
which commands a price premium. On balance, energy-related equipment and materials prices
were unchanged since the last report. Energy payrolls held steady.

**Freight Transportation.** Freight volume was little changed since the last report.
Although shipments remain strong, capacity constraints are limiting the industry’s growth.
Demand is strongest from the agriculture, industrial machinery, and oil and gas industries. Little
change in equipment pricing was noted. Due to lower diesel fuel prices and favorable pricing,
carriers’ bottom lines are either stable or improving. Our contacts’ outlooks are positive, though
any expected increase in activity through year’s end is being attributed to typical seasonal
swings. Capital spending in 2015 is projected to be on a par with the current year. Monies are
being allocated to replace aging equipment (including auxiliary power units) and adding
capacity, but the rate of increase is slow. Hiring is both for replacement and for adding capacity.
Industry executives identified three sources of rising labor costs: wages (reflecting a driver
shortage), healthcare (related to compliance with the Affordable Care Act), and regulatory
compliance (related to hours-of-service rules).
FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy strengthened moderately since the previous report. Manufacturing activity increased at a slightly slower pace, as shipments and new orders grew modestly. Inventories of finished goods and raw materials rose more quickly in recent weeks. Retail sales rose moderately faster. Revenues at non-retail services firms also grew more rapidly. District tourism advanced on pace with the prior report. Residential mortgage demand increased in several locations as housing markets improved modestly. Commercial leasing varied by location; increases in retail rental rates were widespread. In agriculture, several farmers reported completion of crop harvests. Crop prices were lower than a year ago, but prices for poultry, cattle, and swine were higher. Coal production was unchanged since our previous report. Natural gas production increased moderately. Hiring was generally steady—and in some cases a little stronger—across the District. Average wages rose more quickly on net in the manufacturing and services sectors in recent weeks. Growth slowed in manufacturing prices paid and prices received. Service sector price growth remained constant.

Manufacturing. Manufacturing activity increased at a slightly slower pace in recent weeks. Shipments and new orders grew modestly, and expectations for the months ahead remained positive. Inventories of finished goods and raw materials rose at a faster pace compared to the previous report. A South Carolina packaging materials manufacturer reported a great month, with increased new orders and shipments. He also said that he had expanded his facility. A machinery manufacturer in North Carolina stated that business improved, with more new customers. An engineered plastics producer in North Carolina reported steady demand and new purchases of equipment. In contrast, an auto parts manufacturer in South Carolina said that demand growth varied across business segments. A Virginia components producer reported no change in new orders and shipments, although the company has increased capital expenditures in anticipation of improved business prospects. A North Carolina dental products manufacturer said new orders slowed recently and demand was below a year ago. Prices of raw materials and finished goods rose at a slightly slower pace since the preceding report.

Ports. Port activity increased in recent weeks, especially on the import side. Container traffic remained very strong. Exports of empty containers rose, a signal of the peak season, since the containers will be filled and returned. Exports of filled containers also increased robustly, primarily those loaded with grain, soybeans, animal feed products, and waste paper. Coal exports declined since the previous report. Imported container counts exceeded exports, led by increases in consumer products such as appliances, holiday décor, and apparel. Imports of construction machinery, machine and auto parts, and agricultural products also rose. Delays in rail transportation of goods to ports remained an issue.

Retail. Retail sales rose moderately faster since our previous report, with slightly stronger big-ticket sales. An executive at a large chain department store reported a modest decline in same-store sales
coupled with double-digit growth in online sales. He stated that his company’s recent capital expenditures have been devoted to improving its internet site and credit card security. A car dealer in the Baltimore region said new car sales were strong in October, and trade-ins increased his stock of used and rental cars. He also stated that manufacturers have sent out recall notices and replacement parts are ready, but that many consumers are not bringing their recalled cars in for repair. An executive at another large auto dealership reported a high number of recall fixes along with increased used car sales. A hardware chain executive said he has built up inventory in anticipation of another harsh winter. Grocery managers reported faster price growth; other retail prices continued to rise moderately.

**Services.** Non-retail services firms’ revenues rose more quickly in recent weeks. Several trucking contacts reported faster revenue growth; one said that rail delays have resulted in some additional cargo being moved by trucks. An executive at another large trucking firm stated that current strength at his business is being driven by seasonal demand. At other services firms, a finance executive reported that his clients were feeling more comfortable with asset market investments, and a partner at a CPA firm reported some new business. Service-sector prices continued to rise modestly since our previous report.

Tourism and business travel remained on pace with our prior report, with particular strength in the Charlotte and Research Triangle regions of North Carolina and North Charleston, South Carolina. A source on the North Carolina outer banks reported that Thanksgiving week bookings are solid, and a Charleston, South Carolina restaurant executive said the local hospitality industry is thriving. Occupancy and room rates continued to rise in the Carolinas. A western Virginia ski resort manager reported that the recent sharp temperature drop allowed early snow-making, bringing a spike in bookings. He added that group bookings had nearly filled rooms for the Christmas season.

**Finance.** Lending conditions have improved somewhat since our previous report. Residential mortgage demand increased in Maryland, central South Carolina, and West Virginia, but was was little changed in Virginia and southeastern South Carolina. In North Carolina, reports varied: One lender said mortgage lending declined but another said loan demand was strong, especially for new construction. In Maryland and West Virginia, contacts reported that increased competition had led to aggressive mortgage terms and lower loan yields for banks. Deposits increased in North Carolina and Virginia. In addition, auto and consumer credit borrowing rose in North Carolina. A South Carolina contact said first-time homebuyers were finding it difficult to get financing as a result of the qualified mortgage rule. No changes to credit standards or credit quality were reported. Business lending rose in North Carolina, particularly for commercial real estate and business mergers and acquisitions. Commercial real estate lending also rose in Maryland and South Carolina. Mortgage interest rates declined slightly according to bankers in Virginia and West Virginia and were unchanged elsewhere in the District.

**Real Estate.** District housing market activity increased modestly on balance since the previous report. Realtors continued to report steady levels of buyer traffic with slight increases in sale prices. Most
brokers reported low levels of housing inventories, although contacts in Northern Virginia and the District of Columbia had slight increases. Average days on the market decreased in central Virginia and in the District of Columbia, but increased slightly in the Carolinas and Northern Virginia. A Northern Virginia Realtor reported greater movement in the $200,000 to $900,000 price range, but had fewer buyers for homes priced above $1 million, and said condo sales were stagnant. A contact in South Carolina reported tepid condo sales and steady demand for single-family homes priced below $250,000. Realtors reported no change in new home construction. Multifamily leasing was strong in Charlotte and Baltimore.

Commercial real estate activity increased moderately in recent weeks. Brokers reported that commercial sale prices increased slightly, and that sales activity was strong in Richmond, Baltimore, and Charlotte. Multiple Virginia contacts reported an increase in retail construction. Brokers in Baltimore and Richmond said medical construction increased recently. A contact in Columbia, South Carolina reported a strong market for leasing of manufacturing plants and storage and distribution warehouses. A Realtor in Charleston, West Virginia said available Class A and Class B office space had increased in an already sluggish office market. In contrast, a Richmond broker described less availability of Class A office space. There were several reports of rising retail rental rates; growth in other rental rates varied by region and submarket.

**Agriculture and Natural Resources.** District agribusiness conditions were reported as stable. A grower in South Carolina completed peanut harvesting, and one in West Virginia finished wheat and cover crop harvesting. Dry weather in eastern Virginia delayed tree harvests. A North Carolina contact reported higher year-over-year orders for Christmas trees from big-box stores. Soybean harvesting was half-completed in South Carolina and in West Virginia, where yields were above average. Demand for wood pellets increased. Farmers reported lower crop prices and higher poultry, cattle, and swine prices than a year ago. Input prices rose since the previous report. Some growers planned fewer equipment purchases relative to a year ago.

Coal production remained at the same levels as in our preceding report and prices were unchanged. Natural gas production increased moderately in recent weeks, and prices decreased slightly.

**Labor Markets.** Demand for workers picked up in the Carolinas but was little changed in Maryland and Virginia since the previous report. A staffing agency in North Carolina reported increased hiring of permanent workers across a broad base of industries. A South Carolina staffing agent reported increased direct hiring across a diverse set of industries, including engineering, manufacturing, financial services, and environmental sciences. In the Carolinas, temp hiring increased, and more clients converted temporary positions to permanent, reducing the pool of talented temporary workers. Contacts reported difficulty finding IT professionals, managers, and engineers, as well as manufacturing, transportation, and warehouse workers. Wages were stable except for a few occupations, such as computer programmers and truckers. However, a recruiting agency director in North Carolina said some sign-on bonuses and
relocation assistance packages were being offered more frequently. According to our most recent surveys, manufacturing employment grew at a slightly slower rate while average wage growth increased marginally relative to the previous survey period; in the service sector, employment grew more rapidly and wages increased at a faster pace.
SIXTH DISTRICT – ATLANTA

Reports from Sixth District business contacts remained largely positive with most noting that economic conditions were improving at a steady pace over the reporting period. Most contacts are optimistic about the near-term outlook with nearly all contacts either expecting growth to be the same or higher than the most recent reporting period.

Retail sales were up slightly from the previous report while auto sales across the District were stable at a high level. Reports from the hospitality sector remained positive as the sector experienced increased activity from both domestic and international travelers. Residential real estate contacts noted that existing and new home sales were flat to slightly down from a month ago. Home prices improved modestly and inventory levels were relatively flat for both brokers and builders. Commercial real estate contacts reported increased activity, particularly in apartment construction. Manufacturers indicated that new orders and production increased since the previous report. Bankers indicated that loan activity was flat to slightly up for the reporting period. The District continued to experience modest job growth. On balance, input cost and wage pressures remained subdued.

**Consumer Spending and Tourism.** Since the previous report, District retail contacts indicated that sales were up slightly. Some noted that the recent decline in gasoline prices allowed consumers to shift some of their spending towards discretionary items. Light vehicle sales continued at a relatively strong pace. Looking ahead, District retailers are optimistic about the upcoming holiday season.

Reports on leisure and business travel remained positive since the previous reporting period. Hospitality contacts reported high occupancy rates at hotels and resorts, and the number of domestic and international visitors to the District increased from a year ago. Tourism contacts anticipate a robust holiday season and a solid start to 2015 with strong advance bookings in the hotel and conference segments for the first two quarters of next year.

**Real Estate and Construction.** District brokers indicated that growth in home sales has slowed since the previous report. A growing share of contacts reported that home sales fell short of their plan in October, and most contacts noted that home sales were flat or down slightly compared with a month ago. Brokers continued to report modest home price appreciation. The majority of brokers indicated that inventory levels remained flat from the prior month’s level and noted that buyer traffic was flat to down. Brokers indicated that they expect home sales to remain flat or decline slightly over the next three months.
Reports from District builders have been a bit less positive, on net since the previous report. A majority indicated that construction activity met their plan in October, but that new home sales had fallen short of their plan. Many builders characterized construction activity and new home sales as flat to slightly down from the previous report, while the inventory of unsold homes was flat to slightly up. They continued to report modest home price appreciation. Their outlook for new home sales and construction activity over the next three months was mixed.

District commercial real estate brokers continued to report improving demand, though they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Commercial contractors noted continued strength in apartment construction and indicated that the level of nonresidential construction activity continued to increase modestly. The outlook among District commercial real estate contacts remained fairly optimistic.

**Manufacturing and Transportation.** District manufacturers reported increased activity in October. Solid gains were seen in new orders and production levels were notably higher compared with the previous reporting period. Employment levels increased modestly, and raw materials prices rose slightly for some manufacturers. However, the outlook among manufacturers is less optimistic than the previous report with less than a quarter of contacts expecting production levels to increase over the next three to six months.

Transportation activity in the District continued to expand from the previous reporting period. Trucking contacts reported increased shipments of construction materials such as drywall and bulk cement. Rail shipments of agricultural products were up and volumes of chemical products, such as crude oil, liquefied natural gas, and sand for hydraulic fracturing, posted double-digit increases from a year ago. Logistics and delivery contacts indicated that recent growth was driven mostly by e-commerce. The majority of District transportation contacts expect even faster growth in the coming months, over and above the usual seasonal increase.

**Banking and Finance.** Reports on lending activity were mixed and varied by geographic area. In some areas, residential real estate lending was flat but commercial lending picked up, while in other parts of the District, mortgage lending consisted of a mix of new construction, refinancing, and home improvement loans. Regulatory requirements continued to be a concern for community bankers competing with larger banks for loans. Competition for qualified borrowers was characterized as “fierce,” as low pricing and relaxed terms were being offered by some institutions to attract clients. Business contacts reported that credit availability was little changed from the previous report, with large businesses having easy access to credit
and small businesses having more-restricted access. Some contacts expect modest improvements in lending activity through the end of the year.

**Employment and Prices.** Nearly all states in the District experienced job growth, with 39,900 jobs added on net in September. Sectors with payroll additions varied by state, though leisure and hospitality gains were relatively widespread and sizeable across District states. The unemployment rate declined 0.1 percentage point from 6.9 percent to 6.8 percent during the same period. However, contacts continued to report challenges filling certain positions, namely construction and skilled trade jobs, drivers, and information technology positions. Some businesses also indicated that they were finding it increasingly difficult to fill low-skill positions.

Input cost pressures remained muted across most sectors, with some easing of the pressure that had been reported earlier in the year. Firms’ pricing power remained limited, according to results from the Atlanta Fed’s October Business Inflation Expectations survey, expectations for the coming year continued to hover around 2 percent. There was little evidence of broad-based acceleration in wages outside of trucking, construction, banking, and information technology. However, there were nascent signs of some mounting wage pressures for lower-skill jobs—many of whose nominal wage rates have been flat for several years.

**Natural Resources and Agriculture.** Industry contacts reported that the recent drop in oil prices led regional exploration and production firms to evaluate operational flexibility, cost-management strategies, and extraction technologies, although steady production is anticipated in both deepwater and onshore drilling. Contacts also shared that the supply of natural gas continued to grow faster than demand even after adjusting for seasonal factors.

Large parts of Alabama and Georgia — and to a lesser extent, parts of the Florida panhandle, Louisiana, and Mississippi — experienced varying degrees of drought ranging from abnormally dry conditions to a few isolated areas of severe drought. Although heavy rain in early October delayed peanut harvesting in some parts of the District, harvests in Alabama, Florida, Georgia, and Mississippi were ahead of their 5-year average. Alabama and Georgia cotton crop harvests were ahead of their 5-year averages while recent rain in parts of Tennessee delayed some of their cotton harvesting activities.
SEVENTH DISTRICT—CHICAGO

**Summary.** Growth in economic activity in the Seventh District remained moderate in October and November. Contacts expressed optimism for the coming year, but noted concerns about weakening foreign growth and the possibility of another severe winter. Consumer and business spending, manufacturing production, and construction and real estate activity all increased moderately. Credit conditions changed little on balance. Cost pressures generally eased over the reporting period. Corn, soybean, wheat, and cattle prices rose, while milk and hog prices decreased.

**Consumer spending.** Growth in consumer spending continued at a moderate pace in October and November. Higher consumer confidence and lower gasoline prices led to a more positive outlook for the holiday season among most non-auto retailers. The early arrival of winter weather helped some retailers, while others were concerned that it would dampen sales during the holidays. Auto sales and leasing activity remained strong, supported by low interest rates and extended financing terms. Lower gasoline prices continued to spur demand for trucks and SUVs. Auto dealers also indicated that used vehicle sales were somewhat above expectations and that used car prices, which had been declining recently, had leveled off.

**Business spending.** Business spending continued to grow at a moderate rate in October and November. Inventories were at comfortable levels for most manufacturers and retailers, though an early cold spell led to shortages of some winter-related retail items. There were also some reports of manufacturers stockpiling crucial inputs as insurance against another harsh winter. Capital expenditures and spending plans continued to rise, with expenditures primarily going toward replacing IT equipment and building new structures. Merger and acquisition activity also picked up. Actual hiring and hiring plans continued to increase at a moderate pace. Some retailers reported slightly higher seasonal employment levels than last year, while others reported boosting the hours of existing employees in lieu of hiring more seasonal staff. Contacts again noted strong demand for skilled workers, particularly for those in professional and technical occupations and skilled manufacturing and building trades. In addition, a staffing firm reported an increase in demand from small- and medium-sized businesses.

**Construction and real estate.** Construction and real estate activity increased moderately over the reporting period. Residential construction rose in both the single- and multi-family markets. Builders expected that an improving economy and continued low interest rates would help support steady growth in new construction. Home sales picked up more than expected in both urban
and suburban markets. Inventories of existing homes for sale also increased, as rising house prices prompted sellers to enter the market. Nonresidential construction expanded at a moderate pace, led by demand for industrial and office buildings. Commercial real estate activity increased broadly, as vacancies ticked down and rents rose. Contacts noted that sales of existing properties with tenants already in place were particularly strong. Leasing of industrial, office, and retail space increased.

**Manufacturing.** Manufacturing continued to grow at a moderate pace in October and November. Activity in the auto, aerospace, and energy industries remained strong. An automaker reported adding a third shift to meet expected demand for new models. However, some auto suppliers noted a delay in orders while automakers retooled production facilities. Steel production grew steadily. Steel prices decreased and imports increased, due to weaker demand abroad. Most specialty metals manufacturers reported that order books reflected solid demand. While demand for heavy machinery grew slowly in general, there were marked differences across product categories: Sales of construction machinery picked up, but sales of agricultural and mining equipment remained weak. Manufacturers of household appliances and construction building materials reported an increase in shipments, and were encouraged that the improving labor market would continue to translate into stronger housing demand. Utility contacts reported that weather-adjusted load growth was up slightly as the number of residential customers increased.

**Banking/finance.** Credit conditions were little changed on balance in October and November. Financial market volatility increased significantly in mid-October, but declined over the remainder of the reporting period. Business loan demand was mixed. Banking contacts noted lower demand from middle-market firms, but an increase in demand from small businesses for financing equipment and structures. Utilization of credit lines for working capital declined across market segments. Consumer loan demand increased, with continued strength in auto lending and an increase in mortgage refinancing driven by lower mortgage rates.

**Prices/costs.** Cost pressures generally eased over the reporting period. Energy prices and iron ore and steel prices decreased since the last report. In contrast, several contacts reported transportation cost increases. In addition, with strengthening demand a number of manufacturers were able to raise prices and expect to put through further increases in coming quarters. Retail prices were little changed overall. Wage pressures continued for skilled workers as many contacts indicated shortages of available labor, but wage pressures remained less pronounced for unskilled workers. Non-wage costs changed little on balance, though a number of contacts reported rising health insurance costs, some of which was being passed on to employees. However, several contacts
noted that they were re-examining their overall compensation policies because they are worried about losing talent.

**Agriculture.** The District harvest was behind a normal year’s pace even before early snows delayed progress in some parts of the District. Still, yields should set records for the District overall. Corn and soybean prices moved up during the reporting period, driven by the slow harvest, farmers storing much of the crop for later sale, and some shipping delays. Wheat prices rose as well. Milk and hog prices declined from the prior reporting period, but operations remained profitable. Cattle prices moved higher with signs of herd expansion. Weights for hogs and cattle at slaughter were very high, helping boost the supply of meat coming to market.
Eighth District - St. Louis

Summary

Economic growth in the Eighth District has slowed slightly from the pace reported in the previous Beige Book. Retail contacts have mostly seen slow to modestly increasing sales. However, recent reports of planned activity in manufacturing and services have been largely positive. Overall, residential real estate markets have remained weak, while commercial and industrial market conditions have been mixed. Lending at a sample of District banks has increased modestly. Finally, wages have increased at a modest pace, while consumer prices and employment levels have grown more slowly.

Consumer Spending

Anecdotal reports from retailers indicated slow to modestly increasing consumer spending on net. Half of the retailers surveyed anticipate fourth-quarter sales to be similar to a year ago; the remainder of contacts were evenly split between anticipating lower and higher sales. About 40 percent of respondents anticipate that, if current conditions persist, sales will fall short of expectations; only 10 percent of retailers report that sales are on pace to exceed expectations. The majority of retail contacts anticipate that holiday sales will be on a par with last year’s sales, and only about a quarter of respondents anticipate some growth in holiday sales. Major retailers in the District plan to hire roughly the same number of seasonal employees as they did last year to meet holiday demand.

About half of the auto dealers surveyed anticipate fourth-quarter sales to be similar to a year ago; the remaining half of auto dealers were evenly split between anticipating lower and higher sales. The majority of auto dealers surveyed report that their inventories are at desired levels. Most auto dealers saw no change in the product mix of the automobiles being sold.

Manufacturing and Other Business Activity

Plans for manufacturing activity remained positive in the most recent reporting period. Firms in aviation, metals, furniture, industrial equipment, and automobile parts manufacturing plan to hire new employees and expand operations in the Eighth District. In contrast, one firm that manufactures industrial piping equipment reported plans to lay off workers. Reports from food manufacturers were mixed.
Plans for activity in the District’s service sector also remained positive. Firms in finance, information, and communications services reported plans for new hiring and expansion in the District. Reports from healthcare and transportation services firms were mixed.

**Real Estate and Construction**

Home sales decreased in the Eighth District on a year-over-year basis. Compared with the same period in 2013, September 2014 year-to-date home sales were down 4 percent in Louisville, 3 percent in Little Rock, 7 percent in Memphis, and 5 percent in St. Louis. September 2014 year-to-date single-family housing permits decreased in the majority of the District’s metro areas compared with the same period in 2013. Permits decreased 8 percent in Louisville, 25 percent in Little Rock, and 3 percent in St. Louis. Permits increased 4 percent in Memphis.

Commercial and industrial real estate market conditions in the District have been mixed. Contacts in Louisville reported strong leasing activity for industrial and commercial space. Contacts in Little Rock noted that prospective tenants are being pickier about commercial real estate space in northwest Arkansas. Contacts in St. Louis noted a strong industrial market in southwest Illinois. Commercial and industrial construction has been mixed throughout the District. Contacts in Little Rock noted that multifamily developers continue to look for new sites to build apartment complexes. A contact in Memphis reported two new developments planned for the downtown area that will include a mix of office space, apartments, and restaurants. A contact in St. Louis reported that although the office market is tightening, developers are reluctant to begin construction unless they have found their first tenant.

**Banking and Finance**

A survey of District banks showed that overall lending activity during the past three months was modestly improved compared with the same period last year. For commercial and industrial loans, credit standards eased somewhat, creditworthiness of applicants improved, demand was moderately stronger, and delinquencies were slightly lower. For prime residential mortgage loans, credit standards and creditworthiness of applicants remained unchanged, demand was unchanged to somewhat stronger, and delinquencies were slightly lower. For credit cards, credit standards were basically unchanged, demand
was slightly stronger, creditworthiness of applicants was unchanged to slightly lower, and delinquencies were largely unchanged. For auto loans and other consumer loans, credit standards were basically unchanged, demand increased slightly, and delinquencies were unchanged to slightly lower. Creditworthiness of applicants decreased slightly for other consumer loans and remained unchanged for auto loans.

Agriculture and Natural Resources

As of early November, the harvest of District corn, rice, and sorghum crops was over 90 percent complete, and the harvest of District soybean and cotton crops was close to 80 percent complete. District farmers will see substantially larger field crop production in 2014 than in 2013. Specifically, the District corn and soybean crops will be 7.5 and 15.1 percent larger, respectively, in 2014 than in the previous year. District coal production for October 2014 was about 5.1 percent higher than in October 2013. Coal production year-to-date was 2.8 percent higher than the corresponding period a year ago.

Employment, Wages, and Prices

A survey of Eighth District businesses indicated that, in the past three months, prices and employment levels have grown slightly, while wages have grown modestly, compared with the same period last year. Sixty-five percent of contacts reported that prices charged to customers have stayed about the same relative to a year ago, while 21 percent reported an increase and 14 percent reported a decrease. Sixty-four percent of contacts reported that employment levels have stayed about the same, while 32 percent reported a slight increase and 5 percent reported a slight decline. Finally, 57 percent of contacts indicated that wages remained about the same, and 42 percent indicated that wages were higher.
NINTH DISTRICT--MINNEAPOLIS

Overall, the Ninth District economy grew moderately since the last report. Increased activity was noted in consumer spending, tourism, commercial construction and real estate, residential real estate, professional services, manufacturing, mining, and agriculture. Activity was steady in energy and mixed in residential construction. Hiring continued to outpace layoff announcements. Although overall wage increases were moderate, some signs of increased wage pressures were noted. Price increases were generally subdued.

Consumer Spending and Tourism

Consumer spending increased modestly, and retailers were cautiously optimistic for the holiday shopping season. Respondents to a survey of holiday shoppers in the Minneapolis-St. Paul area that was conducted by the University of St. Thomas indicated that per-household spending will increase by about 4 percent relative to last year. Recent same-store sales at two large retailers were up slightly compared with a year ago. A food retailer in Minnesota reported that recent same-store sales were level from a year ago, while a restaurant chain in Minnesota noted that recent sales were down from last year.

While fall tourism activity was level with a year ago, early snowfall in several areas of the District has led to increased optimism for the winter season. Some downhill and cross-country ski locations in Minnesota and northwestern Wisconsin opened about two to three weeks earlier than usual. Likewise, in the Upper Peninsula of Michigan, heavy snowfall has helped boost lodging reservations for the winter season according to an official.

Construction and Real Estate

Commercial construction activity increased from a year ago and is expected to grow further in 2015. According to preliminary results from the Minneapolis Fed’s 2015 business outlook poll, construction-sector respondents are optimistic for the coming year and expect sales volumes and capital investment to increase at their firms. “New construction activity is having a huge impact,” commented a Minnesota commercial construction supply firm. In Sioux Falls, S.D., the value of October commercial permits almost doubled from a year ago. But, in Billings, Mont., commercial permits were down in value in October from a year earlier. Residential construction activity was mixed compared with last year. In the Minneapolis-St. Paul area, the value of October residential permits decreased 9 percent compared with October 2013. However, the value of October residential permits in Sioux Falls increased 61 percent from the same period last year. October residential building
permits in Billings increased significantly in value from last year for both single-family and multifamily buildings.

Activity in commercial real estate markets increased since the previous report. A real estate analytics firm noted strength in several market segments. For example, in the Minneapolis-St. Paul area, the industrial vacancy rate dropped by 30 basis points in the third quarter from the same period last year, the office vacancy rate dropped 90 basis points, and the retail vacancy rate was flat. Residential real estate market activity also increased since the previous report. In the Sioux Falls area, October home sales were up 5 percent, inventory increased 4 percent, and the median sales price increased 8 percent relative to a year earlier. October home sales in western Wisconsin were up 20 percent from last year; the median sales price was up 3 percent. Home sales were up in Montana in the third quarter compared with last year. Minnesota home sales were up 4 percent from the same period a year ago in October, the inventory of homes for sale increased 8 percent, and the median sales price rose 2 percent. However, multifamily housing vacancy rates increased slightly from the second quarter to the third quarter in the Minneapolis-St. Paul area.

Services
Activity at professional business services firms increased at a modest pace since the previous report; growth is expected to continue in 2015. Service-sector respondents to the business outlook poll expect sales volumes and capital investment at their firms to grow in 2015; more than four out of five were optimistic regarding their community’s future economic performance. A contact at a mid-size environmental engineering firm noted 5 percent to 7 percent growth in revenue since the previous report.

Manufacturing
The manufacturing sector grew at a healthy pace since the previous report. According to preliminary results from the Minneapolis Fed’s 2015 survey of manufacturers, more than half of respondents indicated that demand and production had increased from a year earlier; on average, respondents expect orders, production, employment, investment, and profits at their operations to increase in the coming year. A manufacturing index for Minnesota and the Dakotas released by Creighton University (Omaha, Neb.) decreased in October from the previous month, but remained at levels consistent with an expansion in activity in all three states. A partnership among several firms announced plans for a $4 billion petrochemical facility in North Dakota that would be the largest private investment in the state’s history.
Energy and Mining
Activity in the energy sector was steady, but mining activity rose since the previous report. In early November, oil and gas exploration activity decreased in North Dakota and increased in Montana relative to a month earlier; production remained at record levels. Despite recent declines in oil prices, officials in North Dakota expect oil production to continue increasing over the next two years. October production at District iron ore mines increased from a year earlier. In response to rail delays, District mines are sending more ore by truck to water ports.

Agriculture
Overall agricultural conditions improved from the previous report. Early estimates of crop production indicated record soybean harvests and a very large corn crop in District states. However, farm incomes continued to be affected by lower crop prices; in contrast, livestock and dairy producers benefited from lower feed costs and high output prices. Relative to a year earlier, prices received by farmers in October were lower for corn, soybeans, wheat, and hay; prices were higher for cattle, hogs, poultry, and milk.

Employment, Wages, and Prices
Hiring continued to outpace layoff announcements. A medical technology company recently announced plans to hire almost 500 workers at facilities in western Wisconsin. A firm that supplies aerospace companies plans to expand operations in Minnesota, adding 30 to 50 new jobs. Business owners in western South Dakota noted difficulty finding qualified workers for open positions. Agricultural producers in eastern North Dakota recently reported difficulty finding enough truck drivers to move commodities. Nursing positions were difficult to fill in parts of Minnesota. In contrast, a vegetable canning plant in Minnesota recently announced that it will close, affecting 46 full-time workers and about 150 seasonal workers.

Although overall wage increases were moderate, some signs of increased wage pressures were noted. According to preliminary results from the survey of manufacturers, respondents noted that wage increases averaged slightly less than 3 percent compared with a year ago. In Minnesota, a contact reported that wages for skilled construction trades have increased as much as 10 percent from a year ago, and a temporary staffing firm’s representative noted that businesses were paying increased wages for some occupations. According to preliminary results from the business outlook poll, 16 percent of respondents expect wages and salaries in their communities to increase by 4 percent or more during 2015, up from 7 percent in last year’s poll.
Price increases were generally subdued. According to the business outlook poll, 37 percent of respondents expect prices for their firms’ products and services to increase in 2015, while 20 percent expect decreases. In last year’s poll, 33 percent expected increases and 15 percent expected decreases. Minnesota gasoline prices were down more than 20 cents per gallon from mid-October and from a year ago.
The Tenth District economy grew slightly in October and November, and most contacts expected modest growth over the coming months. Consumer spending increased modestly with retail contacts reporting moderate growth and auto, restaurant, and tourism contacts reporting a slight decline. Manufacturing production rose slightly, and overall manufacturing activity was anticipated to strengthen further over the next few months. District commercial real estate activity increased moderately, while residential real estate activity declined slightly. Looking ahead, real estate construction was expected to increase modestly. Contacts in the banking industry reported steady loan demand and loan quality and slightly higher deposit levels. Despite strong profit in the livestock sector, total farm income was below year-ago levels and was expected to fall further due to low crop prices. Energy-sector activity remained steady, and respondents were cautiously optimistic about future drilling activity. Prices grew modestly alongside a slight rise in wages and an increasingly tight labor market.

**Consumer Spending.** Consumer spending increased at a modest pace since the previous survey, and most contacts expected faster growth in the months ahead. Retail sales grew moderately and were well above year-ago levels. Several retailers noted stronger sales of apparel and winter-weather products, though sales for some higher-priced items were again characterized as weak. Expectations for future sales remained solid, and inventory levels were expected to rise somewhat over the next few months. District auto sales declined in October and November. However, dealer contacts anticipated some increase in sales in the months ahead and noted solid sales for small SUVs and pickup trucks. Auto inventories rose but were expected to move lower in the coming months. Restaurant sales continued to decline but were slightly above year-ago levels. Restaurant contacts expected this weak activity to persist heading into the winter months, and several contacts continued to comment on the rising cost of labor. District tourism activity fell further but was flat compared to the previous year. However, tourism activity was expected to improve modestly in coming months.

**Manufacturing and Other Business Activity.** District manufacturing and other business activity rose modestly in October and November. Total manufacturing production expanded slightly, with production of aircraft parts and equipment posting particularly strong gains. However, activity at food, plastics, and chemical plants continued to decline. Contacts reported solid gains in
factory shipments and order backlogs, and expectations for future factory activity strengthened further. However, firms reported rising difficulties in attracting and retaining certain key workers, with several contacts noting increased labor costs. Manufacturers’ capital spending plans remained positive and above year-ago levels, but the pace of expected growth moderated slightly. Transportation and wholesale trade firms reported moderate sales growth since the previous survey period, and activity remained considerably higher than a year ago with firms generally optimistic about future months. Professional and high-tech firms noted a drop in sales since the previous survey period, although sales were up solidly compared to last year, and contacts anticipated strong activity in coming months. One large high-tech firm said the government had shifted toward small businesses for local defense contracts, which had negatively affected their business.

**Real Estate and Construction.** District real estate activity edged up in October and November, as a slight decline in residential real estate activity was offset by moderate growth in commercial real estate activity. Residential home sales decreased slightly, reflecting typical seasonal sales patterns, with sales of low- and medium-priced homes continuing to outpace sales of higher-priced homes. Home prices increased modestly, and inventories decreased slightly since the previous survey period. Expectations for residential real estate sales and prices were slightly positive, but inventories were expected to continue to decline modestly. Housing starts increased at a modest pace, and construction supply sales were flat. Residential construction activity was expected to increase modestly as contacts anticipated higher sales, starts, and traffic of potential buyers. Commercial real estate activity continued to increase at a moderate pace with lower vacancy rates and stronger sales, prices, and construction activity. The commercial real estate market was expected to continue to expand moderately over the next few months.

**Banking.** Bankers reported steady overall loan demand, stable loan quality, and slightly higher deposit levels compared to the previous survey period. Respondents indicated a decrease in the demand for agricultural loans. However, most contacts noted steady demand for consumer installment loans and commercial and industrial loans. Demand for both commercial and residential real estate loans was mixed compared to the last survey. Most bankers indicated loan quality was unchanged compared to a year ago, and a majority expected loan quality to remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories. In addition, a larger number of bankers reported increasing deposit levels than in the previous survey.

**Agriculture.** Farm income expectations fell sharply since the last survey period as above-average corn and soybean yields were not expected to fully offset low crop prices. District contacts
reported current levels of farm income that were significantly lower than last year despite some support from crop insurance and strong profits in the livestock sector. Although reduced income for crop producers had contributed to a rise in the need for short-term loans to the farm sector, agricultural bankers reported that sufficient funds were available for qualified borrowers. Following several years of very strong growth, District cropland values declined slightly in recent months and were holding just above year-ago levels. However, improved profitability in the livestock sector and the potential for herd rebuilding had supported demand for high-quality pasture and contributed to moderate gains in ranchland values.

Energy. Despite the current downward trend in oil prices, District energy-sector activity remained steady in October and November. Most contacts continued to report a high level of drilling activity, and active oil and gas rigs rose through early November, particularly for natural gas. Respondents remained optimistic about future drilling but were closely monitoring the price of oil, which was close to many firms’ breakeven price. Oil prices were at a four-year low due to signs of an oversupplied global market and were expected to weaken marginally in coming weeks. Natural gas prices edged up in line with seasonal norms and colder weather and were anticipated to rise slightly as demand increases through the winter. Total revenues in the energy sector were expected to decline somewhat as a result of lower oil prices.

Wages and Prices. Prices in most industries grew modestly in October and November, and wage growth increased slightly, with many contacts reporting labor shortages. Retail prices edged up, and restaurant menu prices maintained their modest rate of growth. Manufacturers’ raw materials prices increased, although at a slightly slower pace than in the previous survey, and finished goods prices rose modestly. Transportation input prices continued their moderate decline, but selling prices in the sector remained unchanged. Construction materials prices held steady relative to the previous reporting period, but most contacts expected slight growth moving forward. Wages in the retail sector increased in preparation for the holiday season, and retailers anticipated further increases in coming months. Wages grew slightly in the transportation sector, and manufacturers reported modest wage gains as they continued to highlight difficulties finding skilled labor. Respondents noted labor shortages for machinists, skilled construction trade workers, engineers, IT developers, and truck drivers.
ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a solid pace over the past six weeks. Manufacturing activity continued to increase overall, although there were a few reports of slowing growth in demand. Retail and automobile sales reports were mixed, and nonfinancial services firms saw steady or improved demand. Sales of single-family homes slowed, but apartment, office, and industrial leasing activity remained strong. Demand for oilfield services stayed robust; agricultural conditions generally improved. Selling prices were stable or rose slightly for most firms, and employment held steady or increased. Outlooks remained optimistic, but some contacts noted concerns about the potential effect of declining oil prices on the District economy.

**Prices** Most responding firms said prices increased slightly or held steady since the previous report, with a slight uptick in the share of firms raising prices. Accounting, legal, and staffing firms said rates were unchanged over the reporting period. Some staffing firms, however, mentioned plans to increase fees early next year to cover higher costs resulting from the Affordable Care Act. Retailers and auto dealers also noted steady prices, while airlines reported higher fees and fares. Manufacturers of primary metals said they were finding it difficult to raise prices. Prices of construction materials such as cement, brick, and fabricated metals rose, while prices for transportation equipment and high-tech products held steady. Food producers continued to note selling price increases that reflected rising input costs, but added that they will likely not be able pass on cost increases in the future. Most transportation service firms, including airlines, reported lower fuel costs.

The price of West Texas intermediate crude oil fell sharply over the reporting period, resulting in a notable decline in gasoline and diesel prices. The price of natural gas dropped slightly as well, reflecting rapid growth in inventories.

**Labor Market** Employment at most firms held steady or increased since the previous report, and contacts continued to note difficulty in finding skilled workers, particularly in areas where the energy sector was booming. Reports of hiring came from accounting, legal, and staffing services firms and from food product, cement, fabricated metal, petrochemical, and transportation equipment manufacturers. Retailers also noted holiday-related hiring. Residential construction contacts continued to report labor shortages, and energy contacts saw no relief from the tight labor market, especially in West Texas. Financial firms reported greater difficulty in finding workers than in the past, and one law firm said they were increasingly losing mid-level lawyers to in-house counsel job offers from other companies.

Upward wage pressures continued to be widespread, particularly for skilled labor. Upward wage pressures were reported for truck drivers, auto technicians, engineers, and for technically skilled workers in construction and food manufacturing. One primary metals manufacturing firm gave a five percent raise to all of its employees, and some construction-materials manufacturers noted an uptick in wage pressures.
High-tech manufacturers said overall wage pressures eased since the previous report, though several contacts continued to note upward pressure for employees with certain technical skills.

**Manufacturing**  Reports from manufacturers were mostly positive, with only a few noting slowing growth in demand. Cement producers noted improved demand, with one contact saying that demand resulting from industrial and commercial building activity was particularly robust. Lumber and brick manufacturers said sales grew at a slower pace since the last report. Fabricated metals manufacturers saw a broad-based increase in demand that resulted from strength in both energy-related work and in highway, commercial, and industrial construction. Reports from primary metals producers were mixed, with most contacts noting slightly higher sales but with one respondent reporting notably weaker demand.

High-tech and transportation equipment manufacturers noted stable demand over the last six weeks, and outlooks were positive. Food producers said demand was unchanged, ignoring seasonal effects, over the reporting period, and noted increased optimism in their outlooks. Gulf Coast chemical producers reported higher production rates, with the end of several planned and unplanned plant outages. Domestic sales of PVC and polyethylene were strong, while export demand for these products declined. Refinery utilization rates along the Gulf Coast, while still high, decreased slightly in October. Refiners’ margins remained healthy, and outlooks among refiners and chemical producers were positive.

**Retail Sales**  Retail demand growth fluctuated over the last six weeks. Sales were sluggish during the earlier part of the reporting period, but the unusually cold weather led to a strong acceleration in demand toward the end of the reporting period. Strength was noted in home, jewelry, cosmetics, and winter-weather related merchandise. Three national retailers said demand in Texas continued to outperform the national average. Outlooks for the remainder of the year were positive, and contacts expect low single-digit increases in sales next year.

Automobile sales reports were mixed. One contact noted an all-time record sales month in October; however, others noted slightly softer demand recently. Year-over-year demand was up. Outlooks were optimistic, with contacts expecting sales growth in 2015 to be as strong as in 2014.

**Nonfinancial Services**  Demand for staffing services was flat to higher since the previous report. Houston and Dallas–Fort Worth continued to be the strongest markets, and most contacts said that workers at all skill levels were in high demand. One contact reported that while direct hiring was stronger, orders for temporary and contract workers were growing as well. Demand for accounting services fell, reflecting a normal seasonal downturn, but contacts noted that insurance firms were continuing to provide a healthy pipeline of work. Legal firms noted a slight increase in activity over the last six weeks. Work related to mergers and acquisitions picked up, while demand for legal services from oil and gas companies slowed in response to increased uncertainty regarding future oil prices. Litigation activity remained sluggish, but real estate and intellectual property work continued to be strong.
Transportation service firms said changes in overall cargo volumes were mixed, but outlooks continued to be positive. Trucking firms reported strong demand, but said that cargo volumes were even with last year’s levels. Shipping cargo volumes increased, boosted by notable growth in steel tonnage. Air cargo volumes fell but were up sharply from year-ago levels. Airlines said passenger demand held steady since the previous report. Domestic demand remained strong and outlooks were positive.

Construction and Real Estate  The District’s housing sector softened slightly during the reporting period. Slower growth in home sales was partly attributable to seasonal demand changes, although some of the weakening was attributed to higher home prices as well. Two contacts said that builders were not purchasing lots as readily as they have in the past. Outlooks were mostly optimistic, but a few contacts noted concerns about price affordability and the potential impact of an increase in mortgage rates on housing demand. Apartment demand remained strong, keeping occupancy rates high and rent growth solid in most major Texas metropolitan areas. Outlooks were generally positive, but contacts expect rent growth to slow in the near term.

Office and industrial leasing activity was mostly unchanged from the previous report. Investor interest in commercial properties, including foreign capital investment, stayed solid. Outlooks were generally optimistic, although there was some concern about the potential effect of declining oil prices.

Financial Services  Overall loan demand expanded slightly during the last six weeks. Real estate lending increased, with strength noted in demand for construction loans for single-family and multifamily building activity. Consumer lending rose slightly, particularly for auto loans, while financing for medium-sized businesses held steady. Respondents noted increased optimism as year-end figures pointed to solid growth in 2014, although some contacts whose clients are in oil and gas production said they expect a possible slowdown in business because of declining oil prices.

Energy  Demand for oilfield services continued to grow in the Eleventh District. Growth in Texas drilling activity was concentrated in the Permian Basin in West Texas; drilling activity outside of the Permian Basin was little changed. Outlooks for next year, though still positive, were less optimistic than in the prior report, and contacts said that budgets were being revised and capital expenditures are expected to decline in response to lower oil prices.

Agriculture  Recent rainfall improved soil moisture, although drought conditions remained severe in some northern parts of Texas. Harvesting wrapped up for most spring crops. Yields were generally strong and well above 10-year averages. Improved conditions for cotton allowed for more acres to be harvested this year than in the recent past, although the rains during harvest time have had an adverse effect on cotton quality. Dairy producers have had a tremendous year with good margins, but milk and dairy prices have fallen lately, reflecting shrinking exports and increased world production.
TWELFTH DISTRICT–SAN FRANCISCO

Summary

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

Prices and Wages

Overall price inflation remained modest during the reporting period. Historically low iron ore prices and strong competition from China contributed to declines in finished steel prices. Grain prices remained very low. Natural gas prices declined during the reporting period. Health-care sector contacts reported that medical insurance premium increases for individual coverage for 2015 were very low by historical standards. Prices remained stable in the Internet and digital media sector. However, a maker of paper card games announced the first price increases in eight years. Prices of wallboard, wood, cement, and insulation increased or held at relatively high levels during the reporting period. Average daily hotel room rates in southern California increased to pre-recession levels.

In general, wages continued to increase at a modest pace during the reporting period. Several contacts reported that wages were flat or had increased at about the rate of price inflation in their area. Some employers are implementing wage increases in excess of price inflation for high-value, long-term employees whose wages have been flat in nominal terms for several years. Shortages of workers in skilled construction trades, computer programming, electronic game design, and bank loan origination boosted wages in those sectors. Some contacts in the hotel sector reported that recent minimum wage increases significantly affected overall compensation costs during the reporting period.

Retail Trade and Services

Overall retail sales grew moderately during the reporting period. Contacts cited lower gasoline prices and continued improvement in employment conditions in many geographic areas as spurs to growth.
However, contacts reported that retail spending is soft in areas where the employment situation is still weak. Spending on durable goods and household items in the District grew faster than spending on apparel and groceries. Manufacturer incentives contributed to strong auto sales, especially of new vehicles. Many contacts expect this year’s holiday retail sales to surpass last year’s by 5 percent to 10 percent.

Demand for business and consumer services grew moderately during the reporting period. Demand for cloud computing services continued to increase. Restaurant sales climbed, especially in the quick-service segment. Consumers shifted away from hamburgers, towards chicken, pizza, and Mexican food. Contacts expect that restaurant sales will increase further if gasoline prices continue to decline. Hotel occupancy rates in southern California have been increasing this fall, and October was a particularly strong month. However, holiday bookings by Western Europeans are down from last year.

**Manufacturing**

Overall District manufacturing activity picked up during the reporting period. Year-to-date semiconductor revenue increased 8 percent from the same period last year, and contacts expect strong sales to continue into 2015. However, slower growth in Europe and Asia contributed to softer sales of semiconductors used in power devices and equipment. Orders for residential building materials increased modestly during the reporting period. Capacity utilization for plants producing steel products used in nonresidential construction increased to its highest level since 2008. However, the stronger dollar and slower growth in Asia contributed to a modest decline in demand for recycled metals. Biotechnology and pharmaceutical sector revenue increased during the reporting period, but contacts reported that some biotechnology companies have postponed initial public offerings of their stock until the economic outlook for Europe improves. Year-to-date commercial aircraft deliveries and orders increased moderately from the same period last year. Aerospace and defense sector capacity utilization decreased during the reporting period.

**Agriculture and Resource-Related Industries**

Agricultural conditions in the District were mixed during the reporting period. In general, the continuing drought in California depressed yields for crops such as raisins and almonds. However, tomato production and prices hit record highs. Washington saw very strong apple and pear harvests and an increase in
agricultural exports. Idaho farmers reported an excellent potato harvest, but late-season rains damaged wheat and barley crops. Domestic and foreign demand for West Coast timber is healthy, and contacts reported that shortages of skilled loggers and logging trucks and equipment increased somewhat.

**Real Estate and Construction**

Real estate activity advanced during the reporting period, albeit less consistently across the District for residential properties than for commercial properties. Contacts from some urban areas reported that home prices continued to increase rapidly; in other urban areas, however, prices stalled. In rural areas of the District, home prices generally increased at a moderate pace. Some contacts reported that, despite active construction and ample inventories, new homes have been selling at notably higher prices than comparable existing homes. Commercial real estate construction activity was solid during the reporting period, and vacancy rates decreased in most areas.

**Financial Institutions**

Overall loan demand increased moderately since the previous reporting period. Contacts cited stronger demand for auto loans, credit card loans, and small business refinance loans. Vigorous competition among lenders engendered very favorable loan terms for the highest-quality borrowers. Net interest margins remained narrow, and shrank further for some banks. Some contacts reported that, in their area as a whole, the profitability of community banks declined during the reporting period. In general, private financing activity and venture capital activity were strong.