Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

July 2014
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SUMMARY*

All twelve Federal Reserve Districts indicated that economic activity continued to expand since the previous report. The pace of economic growth was characterized as moderate in New York, Chicago, Minneapolis, Dallas, and San Francisco, while the remaining Districts reported modest expansion. Compared to the previous reporting period, Boston and Richmond noted a slightly slower pace of growth. Most Districts were optimistic about the outlook for growth.

Overall consumer spending increased in every District. Retail sales grew modestly in most Districts, with increases that were generally similar to the previous reporting period. Vehicle sales remained stronger than non-auto retail sales, with Philadelphia, Richmond, Atlanta, and San Francisco indicating robust to very strong auto sales. Tourism activity expanded in all reporting Districts, with growth ranging from slight in Philadelphia to very strong in Boston. Hotel contacts described robust activity in the Boston, New York, Atlanta, and Minneapolis Districts, while Philadelphia and Richmond noted activity levels that were in line with seasonal norms.

Activity in the nonfinancial services sector continued to grow across all Districts at a modest to moderate pace. Many Districts reported positive growth for professional and business services, including healthcare consulting, advertising, engineering, accounting, and technology. Overall, transportation activity rose at a moderate pace since the previous survey period. Broad-based demand for trucking and rail services across the Districts increased, and the Richmond District reported strong growth in port container traffic, with increases in both imports and exports. Manufacturing activity expanded in all twelve Districts. Contacts in the metal and auto industries generally reported positive growth, while manufacturers in the Philadelphia, Cleveland, Richmond, and Chicago Districts reported increased demand for their products from the energy sector.

Reports on real estate activity varied across the Districts. Many Districts reported low inventories and increasing home prices, but demand was mixed. Boston, New York, and St. Louis reported home sales were below year-ago levels, while Chicago noted a decrease in home sales since the last survey period. Home sales in other Districts remained steady or

* Prepared at the Federal Reserve Bank of Kansas City and based on information collected before July 7, 2014. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
increased. Multi-family sales and leasing activity were robust in the New York and Dallas Districts. Residential construction rose for single-family homes in the Cleveland, Chicago, Kansas City, and San Francisco Districts, while New York, Richmond, Atlanta, Chicago, Minneapolis, and San Francisco reported increases for multifamily construction. Commercial construction activity generally strengthened across the Districts, due to higher demand and low vacancy rates.

Loan volumes rose across the nation, with slight to moderate increases reported in most Districts. Credit quality remained stable or improved slightly in most Districts, while San Francisco noted a slight decline. Credit standards were generally unchanged, although Richmond noted an easing of cost terms for well-qualified commercial and industrial borrowers, and Philadelphia and Chicago mentioned that competitive pressures were leading some financial institutions to take on higher credit risks.

Among Districts reporting on agriculture, heavy rains improved soil moisture levels in the Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts, while drought conditions persisted in San Francisco. Most fall crops were reported in good or better condition, and expectations of higher production lowered crop prices. Profitability improved for livestock operators in the Atlanta, Minneapolis, and Kansas City Districts due to high cattle and hog prices. Oil production expanded in the Minneapolis, Kansas City, and Dallas Districts, while natural gas and coal production remained relatively steady in reporting Districts.

Labor market conditions improved, as all twelve Districts reported slight to moderate employment growth. Several Districts continued to report some difficulty finding workers for skilled positions. Aside from higher wages to attract talent for these skilled positions, wage pressures remained modest in most Districts. Price pressures were generally contained, with most Districts reporting slight to modest price increases for both inputs and finished goods. Several Districts noted higher prices for meat, dairy products, construction materials, and some metals (namely steel, copper, and nickel).

**Consumer Spending and Tourism**

Consumer spending continued to increase at a moderate pace since the previous report, with generally modest growth among non-auto retailers and moderate to strong growth in vehicle sales and tourism activity. Most Districts reported modest retail sales growth since the last report,
with slightly slower sales growth in the Boston and Atlanta Districts and faster sales growth in the New York, Dallas, and San Francisco Districts. Although wet weather continued to restrain sales in the Chicago District, New York noted an increase in sales due to pent-up demand as the negative effects from earlier adverse weather abated. Several Districts mentioned that higher meat prices were affecting consumer behavior. New York, Cleveland, and Chicago also reported higher levels of promotions or discounting. Sales were particularly strong for shoes and children’s apparel in the Philadelphia District, furniture in the Atlanta District, home improvement and building materials in the St. Louis and Kansas City Districts, and low-end and mid-range technology goods in the San Francisco District. Contacts in the Philadelphia and Cleveland Districts reported higher planned capital expenditures for retail space.

Vehicle sales expanded in most Districts in the latest reporting period, and auto contacts were optimistic about auto sales in the months ahead. Most Districts reported that sales were above year-ago levels, with Dallas noting a return to pre-recession sales levels. Philadelphia, Richmond, Atlanta, and San Francisco reported robust or very strong auto sales growth, while most other Districts noted a more moderate pace of growth. Cleveland, Richmond, and San Francisco reported some softening in used car sales, while new car sales were stronger than used sales. Richmond mentioned that recent vehicle recalls were weighing on used car sales, while Chicago noted increased activity in service and parts departments due to recalls. SUVs sold particularly well in the Cleveland and Kansas City Districts.

Tourism activity increased across all reporting Districts, and most Districts’ contacts were optimistic about future activity levels. Boston, New York, and Kansas City reported strong tourism activity, while Atlanta, Minneapolis, and San Francisco reported moderate tourism growth. Hotel occupancy rates were high in the Boston, New York, Atlanta, and Minneapolis Districts. Tourism activity rose slightly in the Philadelphia and Richmond Districts, with levels that were in line with seasonal norms. Philadelphia and Richmond also mentioned that many tourists were budget conscious. Dallas noted gains in domestic travel, but weaker demand from foreign travelers.

Nonfinancial Services

Nonfinancial services activity continued to strengthen since the previous survey period, with all Districts reporting steady or improving growth. Many Districts reported positive growth within the professional and business services sector. Specifically, Boston noted an increase in
demand for consulting services (especially for healthcare) and advertising; Richmond indicated a rise in demand for accounting services; Minneapolis mentioned gains in engineering and architecture services; and San Francisco noted an increase in technology services. San Francisco continued to report a decline in activity in the food services industry. Conditions in the staffing services industry across the Districts were unchanged or improved modestly compared with the previous survey period.

Transportation activity grew at a moderate pace in the most recent survey period. Minneapolis and Dallas reported high demand for rail services; in particular, Minneapolis mentioned increased volumes for grain, crushed stone, lumber, and wood, although rail shipments for petroleum, primary forest materials, and nonmetallic minerals decreased. Contacts in the Cleveland District reported strong and broad-based trucking activity, with shipments of construction and fracking-related materials particularly strong. Contacts in the Richmond District noted an increase in demand for freight trucking related to home improvement stores increasing inventories in advance of the Fourth of July holiday weekend. Port officials in the Richmond District saw robust growth in container traffic, led by exports of forest products, grains, soybeans, and auto parts, and imports of auto parts, apparel, and textiles. However, these contacts also noted that imports of housing-related products, such as furniture and appliances, had decelerated.

**Manufacturing**

Manufacturing activity expanded further in all twelve Districts since the previous survey period, with growth occurring across many subsectors. Manufacturing activity in the New York, Atlanta, Chicago, Minneapolis, and San Francisco Districts grew at a robust pace, while the manufacturing sectors in the Boston, Philadelphia, Cleveland, Richmond, St. Louis, Kansas City, and Dallas Districts increased at a more modest pace. Compared with the previous report, the pace of growth slowed slightly in the Boston, St. Louis, and Kansas City Districts, and increased in the Richmond District. Contacts in the Chicago, St. Louis, Minneapolis, Dallas, and San Francisco Districts reported generally positive activity within the metals sector. Philadelphia and Chicago noted improved growth in the aerospace industry since the previous survey period. Manufacturing in the auto industry generally strengthened, with Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and San Francisco reporting increased activity; however, Minneapolis noted a moderation in the auto industry’s demand for certain inputs. Manufacturers
supporting the energy sector in the Midwest and Northern Appalachia reported stronger sales, specifically for metal-piping related products. Production of construction inputs was mixed, as Kansas City and San Francisco reported a decrease in production and Philadelphia, Chicago, and Dallas reported a slight increase. Boston, Cleveland, Atlanta, Kansas City, and Dallas were optimistic about the near-term outlook for overall manufacturing activity.

**Real Estate and Construction**

Residential real estate activity continued to vary by Federal Reserve District, reflecting generally low inventories and mixed levels of demand. Specifically, Boston, New York, Atlanta, Kansas City, and Dallas noted that residential home sales were constrained by low or dwindling inventories. Nevertheless, despite decreasing inventories, residential home sales in the Atlanta and Kansas City Districts rose at a slight to modest pace. Philadelphia, Cleveland, and Richmond also noted a slight to modest increase in sales since the previous survey period, while San Francisco reported that home sales in the recent reporting period were below year-ago levels. Boston, New York, Chicago, and St. Louis indicated that residential sales activity softened, with Chicago attributing some of this decline to an increase in prices. Home prices continued to rise across most of the Districts, especially within urban areas, but contacts in the San Francisco District noted a slightly slower pace of home price appreciation. New York and Dallas reported robust activity in multifamily sales and leasing.

Residential construction activity generally increased across the Districts, with only St. Louis and Minneapolis reporting a decline in overall activity. Chicago and San Francisco reported increased construction of high-end urban single-family homes, and Cleveland and Kansas City continued to see growth in low- to medium-priced single-family construction. Cleveland and San Francisco reported that a shortage of vacant lots was holding back further growth in both single-family and multifamily construction; however, growth remained positive. New York, Richmond, Atlanta, Chicago, Minneapolis, and San Francisco noted that multifamily construction activity increased since the previous survey period. Contacts in the Cleveland District reported that they were seeing greater willingness to finance multifamily projects.

Commercial construction activity strengthened across most Districts. Cleveland and Atlanta reported increased commercial construction activity compared to a year ago, and Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco noted gains since the previous survey period. Boston and Richmond saw mixed commercial
construction activity across their Districts since the previous report. Dallas indicated strong overall commercial real estate construction activity, and commercial real estate construction increased in the Minneapolis District compared with the previous report. Boston, New York, Richmond, Chicago, Kansas City, and Dallas reported tight commercial vacancy rates. Industrial real estate construction and leasing activity was strong in the Philadelphia and Chicago Districts.

**Banking and Financial Services**

Overall, banking conditions improved slightly from the previous reporting period. Nearly all reporting Districts indicated increasing loan volumes. Loan demand was strongest in the New York, Chicago, and Dallas Districts, where loan volumes rose moderately compared with the previous report. Loan volumes increased modestly in the Richmond, Atlanta, St. Louis, and San Francisco Districts, while Philadelphia and Cleveland noted a slight uptick. Commercial and industrial lending increased in the New York, Philadelphia, Cleveland, Richmond, Chicago, and St. Louis Districts. However, commercial and industrial lending decreased slightly in the Kansas City District. Commercial real estate lending exhibited slight to moderate growth in the New York, Chicago, Dallas, and San Francisco Districts. Growth in residential real estate loan volumes was mixed across the System. New York, Philadelphia, St. Louis, and Dallas reported growth, while Richmond, Atlanta, and Kansas City indicated slight declines in demand. Consumer lending increased in the New York, Philadelphia and St. Louis Districts, and construction lending expanded in the New York, Philadelphia, and San Francisco Districts. Most Districts cited stable or slight improvement in credit quality, while Dallas and New York reported moderate and strong improvement, respectively. San Francisco was the only District with a reported decline in credit quality. Bankers in the New York and Atlanta Districts reported decreases in delinquency rates for all loan categories, with rates reaching pre-recession levels in the Atlanta District.

Credit standards remained generally unchanged in most Districts. Contacts in the Philadelphia District expressed a growing concern for loans with risky terms as a result of strong competition among banks to secure new loans. In addition, banking contacts in the Chicago District cited competitive pressure on structure and pricing for traditional and leveraged business lending, particularly from nonbank financial institutions willing to take on higher credit risk. Though Richmond indicated an easing of cost terms for well-qualified commercial and industrial borrowers, credit standards for mortgage lending were described as strict.
Deposit volumes picked up in the Cleveland, Kansas City, and Dallas Districts, but declined in the St. Louis District. New York indicated declining spreads between loan rates and cost of funds, particularly for commercial mortgages. Bank contacts in the Philadelphia District reported growing confidence among both businesses and consumers, but also indicated that businesses continued to be cautious regarding most decisions.

**Agriculture and Natural Resources**

Growing conditions varied with precipitation levels. Heavy rains improved soil moisture levels in the Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts, though there were isolated reports of hail and flood damage. However, recent rains were too late to aid the development of the winter wheat crop and actually delayed the harvest in the Kansas City and Dallas Districts, leading to expectations for below-average yields. Persistent drought in the San Francisco District led some producers to curb new planting to conserve water for permanent crops. Despite late planting in many areas, most fall crops were reported in good or better condition, and expectations of strong production this year lowered crop prices. High cattle and hog prices, reflecting supply constraints and strong export demand, improved profitability for livestock operators in the Atlanta, Minneapolis, Kansas City, and Dallas Districts. Higher milk prices and low feed costs relative to last year also strengthened profit margins for dairy operators in the Minneapolis and San Francisco Districts. The Chicago District reported declines in milk and cattle prices compared with the previous survey period, though prices remained well above levels necessary to cover production costs.

Oil production drove growth in the energy sector, while natural gas and coal production generally held steady. Strong summer demand was expected to support elevated oil prices. Oil production expanded in the Minneapolis, Kansas City, and Dallas Districts, and crude oil inventories rose at Gulf Coast refineries in the Atlanta District. Natural gas production in the Richmond and Kansas City Districts remained relatively steady. Some contacts in the Kansas City District planned to increase capital spending, and also noted a rise in drilling costs due to advances in technology. Coal production in the Cleveland, Richmond, and St. Louis Districts, as well as iron ore output in the Minneapolis District, was little changed.

**Employment, Wages, and Prices**

Labor market conditions continued to improve since the previous report, with all Districts reporting slight to moderate employment growth. Employers in the Philadelphia District
remained cautious, and reported hiring for replacement and some incremental growth. Philadelphia and Atlanta reported more hiring for permanent positions since the last reporting period. Employers in the Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas Districts reported difficulty finding workers for some skilled positions. In particular, a shortage of truck drivers was noted in the Cleveland, Richmond, Atlanta and Kansas City Districts, and skilled construction and craft workers were reportedly in short supply in the Cleveland, Richmond, Atlanta, Chicago, Kansas City and Dallas Districts. Cleveland and Dallas also noted that labor markets were tight in energy-producing areas.

Most Districts noted that wage pressures remained modest outside of some skilled positions. New York, Philadelphia, Cleveland, Richmond, and Atlanta reported stable to slightly increasing wage pressures; in addition, Chicago indicated that wage pressures increased (though primarily for skilled workers). St. Louis, Minneapolis, and Kansas City reported modest wage pressures. Wage pressures in the Dallas and San Francisco Districts were moderately higher than in other parts of the country. Dallas noted that the strongest wage pressures within its District were in the energy and construction sectors, but reported modest upward pressure in other industries as well. San Francisco mentioned some upward wage pressure from rising minimum wages, and some contacts in the San Francisco District noted an increasing need to offer higher starting salaries to attract talent from competitors.

Price pressures were generally contained, with most Districts reporting slight to modest price increases for both inputs and finished goods. New York and Chicago reported upward pressure on costs; Richmond and Kansas City reported that prices of raw materials and finished goods rose at a slightly slower pace. Several Districts noted higher prices for meat, dairy products, construction materials, fuel, and some metals (namely steel, copper, and nickel). Contacts in the Boston, Cleveland, Atlanta, Kansas City, Dallas, and San Francisco Districts reported success in passing on higher input costs to customers in some instances.
FIRST DISTRICT – BOSTON

Reports on recent business performance in the First District display considerable variation both across and within sectors, but point to slow economic growth overall. Contacts in the retail sector report either slight declines in sales or modest increases. Tourism is enjoying very strong growth, while manufacturers report mixed results. Consulting contacts report moderate to strong growth, while commercial real estate reports are mixed across locations and sectors. Relative to a year ago, sales of single-family homes fell in May in four New England states, but contacts also report rising median home prices in two of these states. Output prices are mostly stable in the manufacturing sector, although some firms recently raised their prices, and in the consulting sector some large firms are enacting fee increases to cover rising wage and benefit costs. While manufacturers report no commodity price pressures, some retail contacts note price increases for some inputs. Some firms in the District are engaged in significant hiring and others are doing little to no hiring, largely in line with business performance. Barring pessimism among a few contacts and selected mention of downside risks, most contacts are at least cautiously optimistic about their near-term growth prospects, and respondents in the tourism, biotechnology, and healthcare consulting industries all describe the outlook as highly favorable.

Retail and Tourism

Retail contacts report year-over-year same-store sales growth ranging from small single-digit decreases to low single-digit increases. Some contacts report that consumers are still cautious, while others say that consumers seem more confident. Some indicate that vendor prices and input costs remain steady, while others report cost increases for paper products and for fuel and freight. Depending on the retailer, the outlook for their own business and for the U.S. economy ranges from “challenging” to “steady” to “improving.” The already-strong tourism sector continues to see very robust growth. Boston-area hotel revenues were up 13.2 percent in May from a year ago. Attendance at museums and other attractions is up 8.5 percent year-over-year for May. Tourism-related revenues for the 2014 summer season are projected to be 6 percent to 7 percent higher than in 2013, which was itself a record year.

Manufacturing and Related Services

Of the nine manufacturing firms contacted in this cycle, only two report year-over-year declines in revenues. A maker of frozen fish products reports that demand is down because fish is expensive and also because competitors are underpricing them. A magazine publisher that relies heavily on advertising revenues reports that ad revenues have fallen 10 percent per year for a number of years because of the shift to digital media. Of the firms reporting revenue increases from a year ago, two had very slow growth. One of these, in the chemical industry, reports that its net revenue growth figure conceals wide
variation across different product lines, including a year-over-year revenue decline of 9 percent for its largest line and an increase of 12 percent for its second-largest line. Across contacts, the first quarter’s harsh winter had no lasting effects on inventories, which reportedly stand at moderate levels. Seven contacts report that they are making new hires, with headcounts increasing in line with individual firms’ sales growth. A biotech firm plans to hire 1,000 workers this year, while a manufacturer serving the automobile and aerospace industries reports hiring mostly to replace departing staff. Firms report mostly stable pricing. Two contacts, both selling industrial parts, recently succeeded in putting price increases through to customers. Unlike in many previous reports, no contacts report having problems with commodity prices or supplies. All contacts reporting on investment activity indicate that investment is up over last year, although none of these contacts mention having revised their investment plans recently. With the exception of the magazine publisher, contacts have a positive outlook for the remainder of 2014, and the biotech firm contact is more optimistic than are contacts in such industries as bulk chemicals and automotive springs.

**Selected Business Services**

Demand for analysis, consulting, and advertising is up across the board, as most contacts perceive that the economy is resurgent. Healthcare consulting firms led with 5 percent to 10 percent revenue growth over a year ago. Economic analysis and government consulting firms report year-over-year revenue growth in the range of 1 percent to 4 percent. Advertising firms also report strong demand. According to contacts, wages at business services firms are up 2 percent to 5 percent over last year, while benefits increased at a slightly higher pace. Larger firms report little trouble passing compensation increases on to clients, but smaller firms see margins being squeezed amid fierce competition, coupled with rising wage and energy costs and perceived consumer reluctance to accept higher prices. Healthcare consulting firms and a few large analysis firms plan to increase employment by 5 percent to 10 percent this year. Government consulting and smaller strategy firms report flat headcounts and no plans to hire moving forward. Firms in consulting and advertising report that a tight market for their targeted hires pushed starting salaries up 5 percent to 10 percent over last year. Revenue growth predictions display a broad range, including negative values and a value of 10 percent, although all firms expect growth to improve moving forward. Healthcare consultants are especially optimistic in light of demand stemming from clients’ need to comply with the Affordable Care Act. At the same time, government and healthcare consulting firms cite pending U.S. fiscal and regulatory policy decisions as key risk factors for clients.

**Commercial Real Estate**

Reports from commercial real estate contacts across the First District are mixed. Leasing activity is down in Hartford in recent weeks, a fact attributed in part to usual seasonal patterns and in part to weak
fundamentals. Office leasing activity is also down in Providence, while at the same time Rhode Island’s industrial leasing market is tightening amid strong demand and limited inventory. According to a Portland contact, the city’s tourism industry is booming, and three recently-opened hotels enjoy high occupancy rates. Also in Portland, strong office leasing is driven by growth of existing firms rather than by new firms, and investment demand is strong across industrial, multifamily, and medical properties. In Boston, office rents continue to display a modest upward trend, thanks to a lack of new inventory coming to market. A limited amount of speculative office construction is underway in Boston’s Seaport District, but contacts foresee constraints on similar construction in the form of high costs and limited financing. A regional lender to commercial real estate saw a surge in loan volume in recent weeks, a fact the contact attributes to changes in business strategy. According to contacts, hiring in both Portland and Hartford—and hence added office demand—is held back by a scarcity of young, educated workers in these cities. Contacts expect that Boston will continue to see at least modest improvement in commercial real estate fundamentals moving forward, while contacts in Providence and Hartford point to uncertainty surrounding the outcomes of upcoming elections in their respective states as a factor that could restrain economic growth in the near-term. A Portland contact’s outlook remains bullish.

**Residential Real Estate**

Realtors report steady foot traffic at open houses and multiple contacts insist that demand remains strong despite year-over-year declines in sales in May in four of five reporting states: Connecticut, Massachusetts, Rhode Island, and Vermont. In Maine, sales rose over the same period. To help explain the falling sales, realtors cite inventory shortages, perceived lack of job security, and economic uncertainty. Lack of inventory continues to hamper sales in Massachusetts, where listings have fallen on a year-over-year basis for 27 consecutive months. At the same time, contacts in that state report seeing increases in new listings in selected areas. Despite declining sales, the median sales price of single-family homes in May continued to rise on a year-over-year basis in Rhode Island and Massachusetts. For the same period, median sales prices were flat in Connecticut and down in both Maine and Vermont. Condominium sales in May are down relative to a year ago in Connecticut, Massachusetts, and Rhode Island, while Vermont contacts report increased condo sales over the same period. The median sales price for condos in May increased from a year ago in Connecticut, Massachusetts, and Vermont; by contrast, the median condo sales price fell in Rhode Island over the same period. Looking forward, contacts in both Maine and Connecticut note that they are busy with pending deals, while pending sales figures for June are below year-earlier levels in Massachusetts, Vermont, and even Connecticut. Nonetheless, realtors across the region are hopeful that closed sales numbers for June will show improvement from a year ago.
Economic growth in the Second District has continued at a moderate pace since the last report. Prices of finished goods and services continue to be stable, and businesses report moderate upward pressure on input prices. Manufacturers report a further acceleration in business activity, while service sector firms report steady, moderate growth. Labor market conditions continue to improve: manufacturers indicate that they have stepped up hiring activity since the last report, while service-sector firms continue to expand staff at a moderate pace. Both general merchandise retailers and auto dealers report that sales were quite robust in May but pulled back somewhat in June. Tourism activity has been increasingly brisk since the last report. Housing markets showed signs of leveling off, while commercial real estate markets strengthened slightly. Finally, banks report increased loan demand—particularly on commercial mortgages—little change in credit standards, and increasingly widespread declines in delinquency rates across all segments.

**Consumer Spending**

General merchandise retailers say that sales were robust and generally ahead of plan in May but mixed in June. While retail contacts in upstate New York note that sales were steady to stronger in June, two major retail chains and a number of other contacts note that business pulled back in June. Retailers generally attribute the strong sales in May to pent-up demand, after a long spell of unseasonably cool and wet weather; one major chain characterizes the pullback in June as a return to more normal levels. Retail contacts generally portray inventories as being in good shape. Prices are mostly steady, though one contact describes the pricing environment as a bit more promotional than a year ago.

Auto dealers in both the Rochester and Buffalo areas report that new vehicle sales increased strongly in May and were well ahead of comparable 2013 levels, but note signs of slowing in June. Auto dealers note that both wholesale and retail credit conditions remain in good shape, and they express optimism about the near-term outlook for sales.
Tourism activity has generally been increasingly robust since the last report. With more Broadway shows running through the early summer than in a number of years, revenues and especially attendance at Broadway theaters strengthened further in late May and June. Manhattan hotels saw exceptionally brisk business in May: revenue was up nearly 7 percent from a year earlier, and the occupancy rate reached a record high of 94 percent. Hotel occupancy rates also strengthened in the Albany area in May, but softened slightly in the Buffalo-Niagara Falls area. Consumer confidence in the region was mixed in June. The Conference Board reported a pullback in the Middle Atlantic region (NY, NJ, PA), whereas Siena College’s June survey of New York residents shows confidence increasing for the third straight month.

**Construction and Real Estate**

The District’s housing markets have been generally stable since the last report. Across both New York and New Jersey, existing home sales were down nearly 10 percent from a year ago in May, as the number of homes on the market declined; prices were reported to be flat to up slightly. Contacts in the Buffalo-Niagara region indicate that housing demand remains brisk, but that sales activity continues to be constrained by a dearth of available homes. One industry contact in New Jersey notes that the inventory of available new and existing homes remains low, as a large number of distressed properties remain off the market.

New York City’s co-op and condo market remains robust, with prices up moderately from a year ago in Manhattan and Brooklyn. Sales volume was up moderately from a year ago in Manhattan and up briskly in Brooklyn. In Queens, both prices and sales volume retreated from high levels, reflecting a pullback in new development, which was quite robust in 2013. The inventory of available homes moved up in Manhattan but remains quite low; one contact remarks that some of the apartments recently being put up for sale are priced unrealistically. Inventory levels in Brooklyn remain exceptionally low. Apartment rental markets appear to have leveled off, as rents in Brooklyn
and Manhattan have been flat in recent months. A contact in northern New Jersey notes that multi-family construction has increased strongly, while single-family construction has remained subdued.

Commercial real estate markets were mixed but, on balance, somewhat stronger in the second quarter. Office availability rates fell to multi-year lows in New York City and Long Island, but rose to multi-year highs in the Rochester and Buffalo areas; rates were little changed at high levels (near 20 percent) in northern New Jersey and Westchester & Fairfield counties. Asking rents for office space were flat across most of the District, except in Manhattan, where they continued to trend up and have risen nearly 10 percent over the past year. Office construction activity has been brisk in Manhattan but remains subdued across most of the District. Industrial availability rates were mostly steady to down slightly, with asking rents on industrial space rising on Long Island but mostly flat across the rest of the District. Finally, retail vacancy rates in Manhattan continued to trend up at mid-year; still asking rents continue to rise and are up roughly 8 percent from comparable 2013 levels.

**Other Business Activity**

The labor market has continued to strengthen since the last report. A growing proportion of manufacturers say they have added workers in recent weeks, and, as has been the case for a number of months now, somewhat more service firms say they are expanding than reducing employment. Moreover, considerably more contacts in both sectors say they plan to expand than shrink their workforces in the second half of the year. A major New York City employment agency reports that hiring activity has continued to advance gradually—hiring in the financial sector has slowed slightly, though this contact notes that there continues to be strong demand for IT workers and growing demand for human resource professionals. Wages and salaries, for the most part, remain stable.

Manufacturing firms in the District report a further acceleration in activity since the last report, whereas service-sector firms indicate steady, moderate growth. Manufacturers report that input price increases have broadened somewhat, while service-sector businesses report that they
continue to be fairly widespread. However, the large majority of firms in both sectors say that their selling prices remain mostly stable and expect more of the same in the second half of the year.

**Financial Developments**

Small- to medium-sized banks in the District report continued increases in loan demand across all categories—especially commercial mortgages—since the last report. Bankers report ongoing declines in refinancing activity. Respondents indicate that credit standards were unchanged across all loan categories. A growing proportion of respondents indicate declining spreads of loan rates over cost of funds, with narrowing reported across all loan categories but especially in commercial mortgages. The vast majority of bankers—roughly four in five—indicate that average deposit rates were unchanged. Finally, bankers report increasingly widespread decreases in delinquency rates in all loan categories. Overall, more than 35 percent of respondents say delinquency rates have declined, while fewer than 5 percent say they have increased.
Aggregate business activity in the Third District grew at a modest pace during this current Beige Book period, with few changes from the prior period. Auto sales continued at a very strong pace of growth. Service sectors maintained a moderate pace of growth overall, as did demand for transportation services, specifically. Nonauto retail sales and staffing services continued to rise at a modest pace, although there are signs that momentum is building for stronger growth in the remainder of the year. Manufacturers also reported an ongoing modest rate of increase in activity. Tourist destinations continued to report a slight rate of growth, hampered once more by the storms of the past winter that prolonged the school year for many throughout the mid-Atlantic states. Real estate sectors all reported slight overall growth for the current Beige Book period. Builders and brokers reported that residential construction and real estate sales were showing signs of slight increases off of the low levels seen in prior months. Relatively little change in the sector’s slow growth rate was noted by contacts from commercial construction; however, contacts are optimistic for the near future as groundbreakings for the first wave of several large projects have recently occurred. Contacts reported a slight lull in leasing activity. Lending volumes continued to grow slowly over this period, and credit quality continued to improve. Some contacts suggest that credit risks are rising with heated competition for loans. Overall, contacts reported slight increases in wages, home prices, and general price levels, similar to the last Beige Book period.

Overall, contacts anticipated moderate growth over the next six months. Moreover, they generally expressed greater confidence in the underlying economy than in recent periods from their own perspective and from that of their consumer and business customers. About one-third of all firms reported plans to increase employment and to make additional capital expenditures over the next six months. For smaller businesses, such plans are likely to be realized on a very incremental basis.

**Manufacturing.** Third District manufacturers have continued to report modest increases in orders and shipments since the last Beige Book. Gains in activity continued to reflect demand from a broad base of sectors. Specifically, demand from the auto, aerospace, and energy sectors continued to rise, as did orders from China. Demand from Europe was seen as mixed by manufacturers. Several contacts mentioned some growth originating from residential construction, although they tended to focus on the demand for manufactured housing. Energy-related growth is particularly strong from demand generated by efforts to bring Marcellus shale gas to markets.

Expectations among Third District manufacturers that business conditions would improve during the next six months became more prevalent with more firms expecting increases and fewer firms expecting decreases. Moreover, one-third of firms reported that they anticipate higher levels of employment and capital expenditures in six months — slightly more than during the last Beige Book period.

**Retail.** Contacts have continued to report modest growth of retail sales in the Third District since the prior Beige Book period. Year-over-year sales comparisons were generally
positive for both May and June — the best combined two-month result this year so far. For June, an outlets mall operator reported one of the best year-over-year sales results this year. Growth was highest for retailers of children’s clothing and for shoes. Sales were off for the home furnishings category. This decline was attributed to the end of the tax refund season and interpreted as evidence that households will spend for the home when they have windfall income. Various contacts continued to report that smaller, family-run restaurants and retailers, especially in smaller market areas, are often still struggling to stay in operation. However, one contact noted a return of retail investment to strip center spaces that have been vacant since the recession. Contacts are generally optimistic that the recent retail sales gains will continue.

Auto dealers continued to report very strong sales through May and reported further strengthening into June. Dealers repeated their emphasis on staying lean, with cautious incremental hiring, which is helping to generate ongoing profitability. Sales are expected to remain strong throughout the remainder of the year, according to dealers — exceeding 2013 by as much as 6 percent to 9 percent.

**Finance.** Third District financial firms have continued to report slight increases in total loan volume since the last Beige Book. While some growth was indicated in all broad categories, demand increased most for consumer credit lines, such as credit cards and auto loans. Home equity lines also grew, but gains were slower due to ongoing payoffs of prior balances by more cautious borrowers. Contacts reported continued demand for commercial and industrial loans joined by ongoing fierce competition to secure the business. The market for commercial real estate and home mortgages, especially refinancing, remains much softer than other lines. Most banking contacts continued to report steady improvement in credit quality and loan portfolios. However, heated competition among banks to secure new loans has led to increased warnings of “too-risky” loan terms. Overall, bankers expressed greater optimism for general economic growth — tending to report a growing confidence among businesses and consumers alike. One contact stated that this is the most optimistic he has felt since the recession began. However, cautious tendencies continue to dominate most business decisions.

**Real Estate and Construction.** Third District homebuilders reported little change in sales from the last Beige Book period when a general malaise had dampened hopes for a strong spring season; however, construction has picked up. A New Jersey builder reported that he had salvaged May with end-of-month contract signings and was seeing a little increase in sales activity in June but from very low levels. One Pennsylvania builder continued to report slow sales and cited the overall weakness in the resale market. Despite low sales, builders from both states stated that their construction crews were now pretty busy; the poor winter weather had held up most of their active jobs. Residential real estate brokers reported slight improvements in sales in June. Although May sales were still negative in most major markets on a year-over-year basis, a major Philadelphia-area broker reported doing significantly better than plan in June and expressed hope that he might yet end even for the year. The broker stated that at least part of the ongoing difficulty stemmed from the tightness of inventory of lower-value homes.

Nonresidential real estate contacts reported that growth in construction activity changed little from the slight pace seen in the previous Beige Book period; the growth of leasing activity
dropped back to a slight pace from the more modest growth observed in the prior period. However, construction activity is expected to accelerate throughout the second half of this year and the first half of 2015 because several major projects have recently broken ground and more will do so in the third quarter. The market for industrial/warehouse space remains strong throughout much of the Third District and one contact thought there was finally some firming in demand for Class A office space in the Philadelphia market overall.

**Services.** Third District service-sector firms continued to report moderate growth in activity since the last Beige Book. A little over half of all firms reported increases of new orders and sales. Demand has continued to increase at a moderate rate for truck shipping loads with capacity utilization levels approaching a tipping point that could spark sharp price increases and greater efforts to expand capacity. Staffing contacts continued to report a modest pace of growth; however, they were more upbeat as their activity included many new hires for permanent placements. Overall, the vast majority of service-sector contacts reported expectations that the growth trend will continue over the next six months.

Contacts from tourist areas continued to report a slight rate of growth overall. Prolonged school years in many districts reduced some tourist activity at summer’s start from the mountains to the sea. Jersey shore contacts reported somewhat stronger activity as they complete their return to full capacity following Hurricane Sandy. Contacts along the Delaware shore communities reported somewhat flat activity compared with last year, but for many, 2013 was a banner year. Mountain resorts also reported somewhat flat activity for May and June compared with last year. Several contacts continued to report that maintaining tourist numbers has not translated into comparable sales gains for area restaurants and retailers. Many visitors are maintaining tighter budgets while on vacation. All of the tourism contacts remain generally positive for future growth.

**Prices and Wages.** Overall, Third District contacts reported little change to the steady, slight pace of price level increases, similar to other recent Beige Book periods. The percentage of manufacturing firms reporting an increase in their input costs rose from about one-fourth to about one-third. However, the percentage of firms that increased their product prices barely budged, while a greater percentage of firms reported decreasing their own prices. Overall, prices paid and received by service-sector firms changed little from last period, with about one-third of firms reporting increases. Auto dealers reported little change in pricing. Many contacts continued to report tight, or narrowing, margins. Homebuilders reported that costs have been relatively flat over the last three months. Brokers reported slight, steady overall increases in home prices. Contacts among service-sector companies reported little change in labor costs. One staffing company serving a growing metro area reported that the wage scales across multiple job codes for a major contract renewal were unchanged from two years ago. The contact stressed that there was “no shortage of labor.” Another staffing company contact from a smaller, growing metro area reported that wages were going up but that “clients were nonplussed.” Overall, contacts reported that hiring occurs when it’s necessary for replacement and for some incremental growth, but firms are much more cautious about hiring to expand capacity.
FOURTH DISTRICT – CLEVELAND

The Fourth District’s economy expanded at a modest pace during the past six weeks. New orders and production at District factories grew slowly. Demand for construction services increased slightly compared to earlier in the second quarter. Year-to-date sales of new cars were up moderately from a year earlier, while retailers saw higher same-store revenues compared to a year ago. Since our previous report, coal production and shale gas activity were little changed, freight volume continued to strengthen, and the demand for business and consumer credit moved slightly higher.

On net, payrolls showed a mild increase. Staffing firms provided mixed reports. Job openings were found mainly in energy, healthcare, and IT. Upward pressure on wages is being felt by the construction and freight transport industries. Input and finished goods prices were stable, apart from increases for some metals and agricultural products and a decline in coal prices.

Manufacturing. Reports from District factories indicated that new orders and production were stable or grew at a modest pace during the past six weeks. Strongest demand came from the motor vehicle, oil and gas, and residential construction markets. We heard comments about domestic markets gaining traction, while European sales showed only slight gains. Finished goods inventories decreased since our last report: Several manufacturers noted that the change was in response to rising demand; others cited a rise in raw material prices as a reason to keep inventories low. Our contacts are cautiously optimistic about the domestic outlook, and they project a modest rise in demand relative to current levels in the coming months. Steel shipments grew slightly since our last report, with a further gradual improvement anticipated through year’s end. Year-to-date auto production (through May) at District assembly plants is 8 percent higher as compared to 2013. An original equipment manufacturer (OEM) told us that his company’s projection for 2014 sales of autos and light trucks industry wide has been revised upward to 16.3 million units.

Capital expenditures are in line with budgeted amounts for the fiscal year. Those intending to increase capital budgets as the year progresses reported that the additional monies would be used for productivity enhancements or research and development. There is concern about the negative impact on capital spending due to the elimination of the 50 percent accelerated depreciation rule. Raw material prices were largely unchanged. However, several manufacturers reported a rise in metal prices (copper, nickel, and steel), which they successfully passed through to customers. Hiring of production workers continued to pick up, but the net gain in payrolls is small. Wage pressures are contained.

Real Estate and Construction. Sales of new and existing single-family homes improved during the past six weeks, when compared to earlier in the second quarter. However, year-to-date purchases of new and existing homes through May were somewhat lower than in 2013. One
builder pointed to a lot shortage, which may be a contributing factor to softer sales in his service area. Another builder is concerned about a lot shortage putting upward pressure on home prices. Single-family construction starts across the District are on a slow upward trend and slightly ahead of year-ago levels. New-home contracts were mainly in the move-up price-point categories. A few builders noted a small resurgence in interest from first-time buyers. There was little change in new-home pricing during the past six weeks, although some builders said that they are considering raising prices in the second half of the year. Existing-home prices are trending slowly higher. Homebuilders’ outlooks for the remainder of 2014 varied widely.

Nonresidential builders reported little change in their pipelines during the past six weeks, while most said that activity is above year-ago levels. In general, our contacts are seeing an improvement in the number of inquiries and growing backlogs. Demand was strongest from the energy, housing (public and private), retail, and healthcare markets. Most builders are fairly optimistic in their outlook, but they remain concerned about labor issues and tight margins. One builder mentioned that rising margins contributed to a decline in his contract win rate.

Homebuilders reported that banks remain reluctant to finance single-family tract development, while commercial developers indicated that banks and insurance companies are more willing to finance projects, including multifamily developments. Construction-material pricing is projected to rise 2 to 5 percent this year. Highest increases are expected for hardwoods, concrete, and steel. General contractors reported seasonal hiring, including college recruitment, is at a normal rate. Little additional hiring is expected for the remainder of the summer. Craft-workers are difficult to find and are driving up wages (general and subcontractors). Builders reported that a movement of trade workers among competing firms has picked up. They attributed the job changes to offers of higher wages, especially from oil and gas companies.

**Consumer Spending.** Retail sales during May and into early June were consistent with or moderately higher than those seen earlier in the second quarter. Same-store revenues were generally higher than a year ago. One retailer attributed revenue growth to an ongoing effort to update her product mix, not increased foot traffic. Another observed that consumer confidence and her company’s domestic sales are both exhibiting slow growth and that the total value of goods purchased by the typical consumer is on a decline. As a result, the industry is increasing the use of promotions. Retailers are hopeful that third-quarter revenues will be about 1 to 3 percent higher compared to a year earlier. We heard reports about a run-up in dairy and meat prices that is being partially offset by a decline in the prices of some other agricultural commodities. Food inflation this year is expected to be about 3 percent. Otherwise, vendor and shelf prices held steady. Several of our retail contacts noted that additional monies have been added to their capital budgets, mainly for brick-and-mortar projects. Payrolls are stable.

The number of new motor vehicles sold in May declined on a month-over-month basis. However, year-to-date sales through May were moderately higher compared to 2013.
preferences shifted away from smaller, fuel-efficient cars to SUVs and crossover vehicles. New car inventory has increased since our last report. Used-car purchases have fallen off during the past couple of months, but year-to-date sales through May of used vehicles were stronger than for the same time period in 2013. The outlook by dealers for the summer season is positive, and they foresee a slight increase in unit volume year-over-year. Leasing continues to be a very popular alternative for potential new-vehicle buyers. We started to hear reports about dealers investing in showroom renovations and expansions that are not being mandated by OEMs. A need for service technicians is growing, but dealers are having difficulty finding qualified workers.

**Banking.** Demand for business credit increased, but at a slower pace than earlier in the second quarter. Requests were strongest for commercial real estate loans. Some pickup was seen in C&I lending to manufacturers. Consumer credit demand was stable. Applications for auto loans remain strong, and households are making greater use of home equity products. Residential mortgage activity was flat. Purchase transactions dominated mortgage applications. Delinquency rates were stable. No changes were made to loan-application standards during the past six weeks. Core deposits held steady or showed modest growth, more so from commercial customers. Spreads between lending and deposit rates narrowed slightly, mainly from the lending side. On balance, banking payrolls were steady: hiring was mainly for staffing new branches or to work in regulatory compliance. We heard a couple of reports about staff cuts in mortgage business lines.

**Energy.** Year-to-date coal production across the District is consistent with prior-year levels, with no material shift anticipated in the near term. Spot prices for steam and metallurgical coal have declined. We heard a report that current pricing is less than optimal for producers, especially in Appalachia. As a result, some producers have idled or are considering idling operations. Activity in the Marcellus and Utica shales is stable but at a high level. Wellhead prices for natural gas have declined slightly, while oil prices were steady. Little change was seen in equipment, material, and labor costs.

**Freight Transportation.** Freight executives characterized volume as good or strong and said that revenues are above year-ago levels. The freight backup attributed to the severe winter has been reportedly eliminated. Although strengthening demand is fairly broad based, shipments of construction- and fracking-related materials stand out. The near-term outlook for growth prospects is favorable. At this time, cost pressures are limited to fuel and labor (wage and regulatory). The former is covered through surcharges. Due to a driver shortage, some fleets are providing sign-on bonuses and are carefully monitoring their wage rates to ensure that they are in line with industry norms. We heard several reports about customers becoming more accepting of rate increases to cover higher labor costs. Hiring is for replacement and to a lesser degree, adding capacity. Although most fleets would like to add capacity, they are having difficulty finding qualified drivers. Year-to-date capital spending is in line with or slightly ahead of projections.
FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy grew modestly since our last report. Manufacturing conditions improved on balance in recent weeks. While shipments increased at a slower pace, the volume of new orders rose slightly. Retail sales growth slowed since our last report. In contrast, revenues and customer demand increased at non-retail services firms. Tourism was at normal seasonal levels. Reports on consumer borrowing varied in recent weeks, while commercial lending improved. The District’s housing market strengthened modestly. Commercial construction differed by category and location. In agriculture, crops damaged by late winter weather have been replanted. Natural gas production increased and coal production leveled off since our last report. Employment in the District increased modestly, with strong demand for skilled and semi-skilled labor and limited wage pressures. Prices of manufactured finished goods and raw materials rose more slowly, according to our latest survey. Service sector prices also increased at a slower pace while retail prices moved up slightly faster.

Manufacturing. Manufacturing conditions improved on balance in recent weeks. According to our latest survey, the volume of new orders rose slightly, shipments grew at a slower rate, and inventories of finished goods and raw materials remained constant. A food manufacturer in North Carolina stated that production has been at full capacity, and sales have risen in the past month. A pipe manufacturer in Maryland said both shipments and new orders increased. According to a valve manufacturer in West Virginia, new orders, shipments, and backlogs increased due to the robust energy industry. Another West Virginia contact stated that automotive manufacturing is doing well and the chemical industry is strong. In contrast, a producer of industrial equipment components reported a slowdown with fewer shipments and new orders. Additionally, a packaging materials company manager reported reduced shipments, although new orders rose slightly. Most producers were optimistic about future business conditions. Prices of raw materials and finished goods rose at a slower pace, according to our most recent survey.

Ports. Port officials reported robust growth in container traffic since our last report, with very good volumes moving through the District’s three largest ports. Transfers of heavy machinery and autos remained strong. Both imports and exports increased, with forest products, grains, soybeans, and auto parts leading among exports. Key imports were auto parts, apparel and textiles. Imports of housing-related products, such as furniture and appliances, decelerated. Officials reported some diversions from the West Coast as shippers used East Coast ports to avoid potential labor issues during contract negotiations.

Retail. Retail sales growth slowed since our last report. A grocery contact in North Carolina said his revenue growth was seasonal and related to events such as graduation and Memorial Day. An executive at a South Carolina grocery chain reported an increase in prices, particularly for meat. According to the president of a Maryland chain discount store, sales at his business as well as at other
nearby stores have fallen in the last few weeks. He remarked, “People are meeting their needs first, then their wants.” A large auto dealer said that the massive vehicle recalls have recently begun to have a slight adverse effect on sales of used cars at his business. However, customer traffic remained up and new car sales were strong. Other car dealers also reported solid new car sales. Retail prices rose slightly faster.

**Services.** Revenues and customer demand increased in recent weeks at services firms, according to most sources. An accounting firm in Maryland was receiving more proposals for audit work. In addition, an executive at a national freight trucking firm reported a spike in demand for shipping as home improvement stores stocked up for Fourth of July sales. He also noted an increase in contracts for future shipping. In contrast, a North Carolina hospital official reported that the facility continued to prepare for Affordable Care Act changes, with little change in already soft volumes. Price growth slowed in the service sector.

Tourism contacts reported normal seasonal activity, with many late bookings as tourists looked for deals. According to a Washington, D.C. source, the inflow of tour buses was at typical summer volumes. In South Carolina, a hotel executive said occupancy was steady at a high level. A contact on the outer banks of North Carolina said that visitor traffic was up seasonally, but not above a year ago. New air-taxi service there is expected to increase tourism. A hurricane hitting the area on the Fourth of July holiday weekend had only a minor impact. A manager at a Virginia hotel chain reported that bookings were on pace with a year ago and room rates rose in July. Rates elsewhere were mostly unchanged.

**Finance.** Reports on consumer borrowing varied in recent weeks, while commercial lending improved. Growth in residential mortgage demand slowed across most of the District. However, a lender in North Carolina reported a slight acceleration in demand, and a West Virginia banker reported modest growth in the northern part of the state due to economic growth at natural gas sites. Refinance lending declined in Virginia and West Virginia, with a West Virginia lender stating that the Qualified Mortgage rules have complicated and slowed down the lending process. Demand for consumer loans edged up in North Carolina, Virginia, and West Virginia. Commercial and industrial loan demand was strong in North Carolina and Virginia. A banker in Richmond said lending had increased for apartments, condos, health care centers, and shopping centers. Small business lending was starting to bounce back in Charlotte, according to a banker there. Another North Carolina banker reported strict mortgage standards, but an easing of cost terms for well-qualified commercial and industrial borrowers. A loan officer in West Virginia echoed that mortgage standards remained tight, adding that regulatory scrutiny was intense. Credit quality strengthened according to contacts in North Carolina and West Virginia.

**Real Estate** The District’s housing market improved modestly since the last report. A Northern Virginia broker reported normal buyer traffic, but expects a seasonal slowdown in the next few weeks. A Realtor in South Carolina saw steady demand for mid-range homes. However, demand declined for entry level homes. Home prices rose across the board in Asheville, Charlotte, Columbia, and Raleigh. In
Northern Virginia, Maryland, and Washington, D.C., larger price increases were reported for higher-end homes compared to other types of homes. Housing inventory varied according to contacts, with mild growth in Fairfax, Myrtle Beach, and Washington, D.C., while a broker in Charlotte reported a slight decline. Single family residential construction increased moderately since the last report in Raleigh and Charlotte; real estate contacts in Washington D.C. reported no change. In contrast, a Realtor in Myrtle Beach observed a decline in sales and construction. Multifamily new construction and leasing remained strong.

Realtors in Richmond, Virginia Beach, Raleigh, Columbia, and Charleston, South Carolina reported an uptick in commercial construction, while contacts in West Virginia and Washington, D.C. saw little change. A broker in Maryland said that medical construction had stopped. Grocery-anchored retail construction remained strong across the District. Commercial retail contacts reported solid leasing in Virginia Beach, Richmond, Columbia, and Charleston, South Carolina. Demand for retail space in Washington D.C. was flat. Industrial leasing demand weakened in West Virginia and Raleigh, but strengthened in Charleston, South Carolina. Office leasing was robust in Charlotte and Charleston, South Carolina. Most Realtors reported no change in vacancy rates, except in the Carolinas, where contacts in Charlotte, Raleigh, and Charleston noted a slight decrease across sub-markets. Reports on rents varied. Contacts said that commercial sales edged up in Raleigh, northern Virginia, Richmond, and Columbia. Commercial sale prices increased in Charleston, South Carolina and Virginia Beach.

**Agriculture and Natural Resources.** Replanting of crops due to extended winter weather was completed and wheat harvesting finished up in the Carolinas, according to an agriculture contact. Overall, fertilizer prices remained steady, while agricultural chemical prices and crop seed prices increased slightly. Some agribusiness owners reported lower commodity prices compared to last year. However, a sod company reported higher prices as planting and harvesting increased due to high demand and low inventory. Cotton prices stabilized, according to sources, while seafood prices rose.

Coal production leveled off since our last report, while prices rose due to lower inventories and falling year-over-year production. Natural gas output increased slightly in the past six weeks, while prices were unchanged.

**Labor Markets.** Employment increased at a moderate pace in recent weeks. A North Carolina staffing manager reported an increase in demand for manufacturing and warehouse semi-skilled workers, such as fork lift operators. Contacts noted growth in jobs across many sectors in the Asheville region and in the Research Triangle of North Carolina. In Virginia, skilled manufacturing and construction workers, welders, truck drivers, and engineers were in short supply. Although demand there increased for workers in construction, hospitality, and recreation, many jobs were only part time. In contrast, a contact at a staffing agency in Maryland said that demand weakened slightly in recent weeks. Reports on wages were also mixed, with little wage pressure in Maryland and Virginia, while wage increases were reported in
Raleigh, Charlotte, and Asheville. According to our latest surveys, manufacturing employment rose at a slightly slower pace while average wage growth eased and the workweek lengthened. Employment in the service sector increased at a faster pace, and wages rose more quickly at non-retail service firms while wage growth slowed at retail establishments.
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SIXTH DISTRICT – ATLANTA

On balance, reports from Sixth District business contacts suggest that economic activity expanded modestly in June and early July. The outlook among businesses remained positive as most anticipate higher growth in the near term.

Retailers noted that sales rose at a slightly faster pace relative to the previous report and vehicle sales grew solidly. According to travel and tourism contacts, the hospitality sector continued to experience robust activity. Reports on residential home sales were mixed with fewer brokers noting an increase in home sales relative to the previous report, while builders’ reports remained fairly positive. Both builders and brokers indicated that home prices appreciated from a year ago. Commercial real estate contacts witnessed continued improvement in demand and increased construction activity. Manufacturers cited growth in new orders and production. Bankers noted improved loan growth since the previous report. Payroll employment grew at a modest pace across most of the District. Wages and input cost pressures remained stable overall.

**Consumer Spending and Tourism.** Since the last report, the consensus among District retailers was that sales growth picked up slightly with several merchants indicating that customers spent more money per visit to their establishments than earlier in the year. Strength in residential real estate sales was noted as positively impacting furniture stores and other retailers in high growth areas across the region. Auto sales continued to grow at a solid pace in June and early July.

District reports on tourism and business travel remained positive. Activity in Georgia and Florida was strong with high occupancy numbers at local hotels and resorts. Firms reported several tourism-related capital expenditure projects under construction, intended to stimulate travel to the area. Mississippi’s casino gaming revenues in the first half of the year decreased compared with a year ago. Hospitality industry contacts expressed concerns that a rise in gas prices may adversely affect summer tourist activity.

**Real Estate and Construction.** Fewer District brokers cited growth this period than in the previous report. Just over half of brokers indicated that home sales had increased from the year earlier level, down from nearly two-thirds in June’s report. Most indicated that inventories either remained the same or declined on a year-over-year basis. The majority of contacts continued to report that home prices remained above last year’s level. The outlook among brokers about future sales activity was less optimistic relative to our last report.

On the other hand, reports from District builders remained fairly positive. Most contacts felt that recent activity either met or exceeded their plan for the period. The majority of builders
indicated that construction and new home sales were ahead of the year earlier level. Builders noted that the inventory of unsold homes remained unchanged from a year ago. The majority of contacts continued to report modest home price appreciation. The outlook among builders for construction and home sales was positive.

Demand for commercial real estate continued to improve across most of the region. Absorption rates remained positive. Construction continued to increase at a modest pace from last year and most contractors noted that their current backlog was ahead of year earlier levels. Contacts indicated that apartment construction remained fairly strong and reported that the level of construction activity across other property types remained steady. The outlook among District commercial real estate contacts remained positive with most expecting activity to grow at a steady pace through the summer months.

**Manufacturing and Transportation.** Manufacturers indicated that activity sustained the solid pace of growth noted in the previous report. New orders and production continued to increase, supplier delivery times slowed as demand for inputs rose, and commodity prices were elevated. The outlook among purchasing managers for higher production over the next three to six months remained consistent with the previous report.

Transportation activity in the District continued to expand since the last report. Rail contacts reported notable year-over-year growth in shipments of petroleum products, grain, machinery, and military and transportation equipment. Intermodal traffic remained robust. District ports noted strengthening in container traffic and break-bulk cargo, along with growth in shipments of autos and machinery. Contacts in trucking cited broad-based increases in freight volumes and tonnage.

**Banking and Finance.** Bankers continued to report increased competition and aggressive rates and loan structures. Contacts noted loan growth was strong over the last couple of months, with some of that growth coming from increased credit line usage. Much of the borrowing was used to lower the cost of existing debt and to finance acquisitions. Banks continued to compete aggressively for quality borrowers, especially in small business lending. Mortgage demand, in general, was lower than last year. Applications for new home purchases made up a larger percentage of total mortgage applications as refinancing activity slowed. Some contacts cited an increase in demand for second mortgages and commercial development loans. Auto lending was characterized as strong and competitive in June and early July. Delinquencies were down and have returned to prerecession levels at many institutions.
**Employment and Prices.** Payrolls across the District continued to expand in June and early July, but at a slow pace. The District’s aggregate payroll growth was dragged down by notable payroll losses in Florida. That said, in the aggregate, manufacturing employment increased across the District. Contacts reported continued difficulty filling positions in trucking, construction, and for specific information technology positions. Staffing agencies noted that job placements were up modestly, while the flow from temporary to permanent employment rose slightly.

Wage growth remained in the 2–3 percent range, with the exception of some high-skill, low-supply fields. Growth in input costs was muted for most businesses, with reports of greater cost inflation for some higher demand services and commodity-related inputs, including trucking services, construction materials, and food. A growing number of contacts cited successful attempts to raise prices, though such increases reportedly required more negotiation than was typical pre-recession. According to the Atlanta Fed’s survey on business inflation expectations, firms’ unit costs were up 1.9 percent on a year-over-year basis in June. Looking forward, survey respondents indicated that they expected unit costs to rise 2.0 percent over the coming 12 months, on average.

**Natural Resources and Agriculture.** Gulf Coast refineries continued to run at near record levels, as they have for much of 2014. Refineries continued to invest in storage capacity to accommodate increased crude oil inventories flowing to the Gulf Coast from the Cushing, Oklahoma hub. Regional exports of crude oil rose on a year-over-year basis. Energy firms expect continued strength in the sector and strong demand during the summer months.

While much of Tennessee, southwest Louisiana, and the southernmost tip of Florida continued to experience abnormally dry conditions, most of the District was drought free. Some areas received excessive rain causing delays in production although recent, dryer weather conditions allowed planting to continue. Regional producers benefitted from higher prices for many of their agricultural products, lower costs for feed and fertilizer, and fuel costs leveling off. Recent record-high prices in cattle and hogs were attributed both to growing international demand and to domestic supply constraints.
Summary. Growth in economic activity remained moderate in June and contacts maintained their optimistic outlook for the rest of the year. Consumer and business spending both increased. Growth in manufacturing production and construction and real estate activity was moderate. Credit conditions continued to improve. Cost pressures increased some, but remained modest. Corn, soybean, wheat, cattle, and milk prices were down, while hog prices were up.

Consumer spending. Consumer spending increased in June, but the overall pace of growth remained modest. Reports were mixed, but in most cases, retail sales met or fell slightly below expectations. Retailers cited the abnormally wet weather and higher food and energy prices as factors likely restraining consumer spending; for example, a grocery contact noted that consumers were substituting toward lower quality cuts of meat in response to rising prices. Contacts also noted that the restrained consumer spending had led to increased promotional activity, crimping retail margins. In spite of the setbacks, contacts remained optimistic for the remainder of the year. Light vehicle sales rose as consumers continued to enjoy favorable incentives and credit conditions. Auto dealers reported that activity in service and parts departments increased because of vehicle recalls.

Business spending. Business spending continued to grow at a moderate pace in June. Capital expenditures and spending plans continued to increase, with expenditures still concentrated on industrial and IT equipment. A number of contacts – especially automotive suppliers – again reported expanding capacity. Inventories remained at comfortable levels for most manufacturers and retailers, though some auto dealers reported that shortages of certain popular models were hindering sales. Hiring picked up and hiring expectations continued to increase, with the gains more pronounced in the service sector than in manufacturing. Demand remained strong for skilled workers, particularly for professional and technical occupations and skilled manufacturing and building trades. A number of manufacturing contacts reported investing in labor-saving equipment or employee training because of the challenge in finding skilled workers. In contrast, a construction contact noted that builders are unwilling to invest in training workers until demand is stronger.

Construction and real estate. Overall, construction and real estate activity increased at a moderate pace in June. Both single- and multi-family residential construction expanded. Builders reported continued strength in high-income urban markets but a slight decline in new suburban contracts. Several contacts also indicated that improved credit conditions were making it easier to finance new projects. On a similar note, real estate contacts indicated that access to mortgage credit
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has improved. Nonetheless, home sales declined modestly over the reporting period, while rents and prices were somewhat higher. Both builders and realtors noted that higher prices and mostly stagnant incomes have weighed on affordability and held back a broader pick up in housing markets. Demand for nonresidential construction strengthened considerably, with contacts citing an increase in industrial, infrastructure, and retail projects. Commercial real estate activity continued to expand, as vacancies ticked down and rents rose. Leasing of industrial buildings, office space, and retail space all increased.

Manufacturing. Manufacturing production continued to grow at a moderate pace in June. The auto, aerospace, and energy industries remained a source of strength for the District. Steel service centers reported improving order books, as did many specialty metal manufacturers. In addition, a scrap metal contact noted large inflows from demolitions, which tend to be a leading indicator of future new construction. Manufacturers of construction materials reported steadily increasing production and demand. Demand for heavy and medium duty trucks grew moderately, as transportation volumes rose. Demand for heavy machinery continued to grow at a slow but steady pace, with some improvement noted by contacts in domestic and European markets. Construction machinery again was a positive while the global weakness in mining continued to weigh on demand. Contacts reported that lower demand and increasing inventories had led some heavy machinery producers to reduce capacity.

Banking/finance. Credit conditions improved moderately from the prior reporting period. Equity market volatility decreased further, as did corporate financing costs for a number of District firms. Business lending increased, with contacts noting a pickup in demand for the financing of equipment and commercial real estate. Contacts also reported an uptick in leveraged lending for dividend recapitalizations and strategic acquisitions. Banking contacts continued to cite competitive pressure on structure and pricing for traditional and leveraged business lending, particularly from nonbank financial institutions willing to take on higher credit risk. Growth in consumer loan demand was steady over the reporting period, with an increase in applications for credit cards, continued growth in auto lending, and an uptick in mortgage originations and home equity lending.

Prices/costs. Cost pressures increased, but remained modest. Overall, industrial metals prices changed little, although contacts noted some increases in steel, copper, and nickel prices. Energy costs remained elevated. Competition put downward pressure on retail prices; with little change in wholesale prices, there was some compression in retail margins. Contacts again reported cost pressures for retail meat and dairy items, as wholesale prices for both remained elevated. In
addition, a contact noted that shortages were driving up leather prices. Wage pressures increased, primarily for skilled workers. Non-wage labor costs were little changed.

**Agriculture.** The District’s corn and soybean crops made up ground after a late start to planting as favorable weather helped plants emerge more quickly than the five-year average. The consensus among contacts was that the corn and soybean crops were in excellent shape, but were unlikely to set records when harvested because of the late plantings. Corn, soybean, and wheat prices moved down during the reporting period. More farmers than a year ago took advantage of the spring rally in crop prices to lock in a profit on a larger portion of their expected harvest. Hog prices moved higher as disease affected supplies. Farmers received lower prices for milk and cattle, yet these prices remained well above levels necessary to cover the costs of production.
Eighth District - St. Louis

Summary

Economic activity in the Eighth District has increased modestly since the previous report. Retail activity in the District has expanded at a modest pace. Recent reports of planned activity in manufacturing and services have been positive on net. Residential real estate market conditions have continued to deteriorate throughout the District, while commercial real estate market conditions have improved. Lending activity at a sample of small and mid-sized District banks has increased slightly. Finally, wage and employment levels have grown modestly, while prices have increased slightly.

Consumer Spending

The retail sector experienced, on net, modest growth across the District with openings announced in the apparel, auto, and home and garden sectors, but these were accompanied by a few closures by both national and local retailers. Contacts noted that the retail furniture market remains soft in parts of the District. One major mall in the District saw slightly positive sales growth. Contacts reported good sales entering the summer months for hardware/lumber yards, retail establishments, and restaurants. Finally, some restaurants and businesses across the District saw historically large revenue during the World Cup festivities.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the District, while a smaller number of manufacturers reported plans to reduce their workforces. Firms in auto parts, medical equipment, adhesive and sealant products, precious metals, electronic products, alcoholic beverage, and boat manufacturing plan to hire new employees and expand operations in the District. In contrast, firms that manufacture food and pharmaceutical preparations reported plans to lay off workers in the District.

Reports of planned activity in the District’s service sector have been positive since the previous report. Firms in transportation; distribution; courier and express delivery; and business, engineering,
communication, and hotel services reported new hiring and expansion plans in District states. In contrast, firms in health care, adjustment and collection, and media services plan to lay off employees. Contacts in Louisville reported that more restaurants are opening than are closing and that a major grocer expanded floor space.

**Real Estate and Construction**

Sales of new and existing homes have decreased in the largest metro areas of the District. Compared with the same period in 2013, May 2014 year-to-date home sales were down 6 percent in Little Rock, 4 percent in Louisville, 5 percent in Memphis, and 11 percent in St. Louis. May 2014 year-to-date single-family housing permits decreased in the majority of the District metro areas compared with the same period in 2013. Permits decreased 25 percent in Little Rock, 17 percent in Louisville, 1 percent in Memphis, and 3 percent in St. Louis.

Commercial and industrial real estate market conditions have improved, on balance, since the previous report. A contact reported weak demand for office space in the Louisville downtown area, but expected an increase in office space leasing activity because of recent employment gains. Contacts in Memphis noted strong retail leasing activity. A contact in Little Rock reported a stable and healthy industrial market. A contact in St. Louis reported tight market conditions in the industrial market and an increasing demand for new warehouse distribution centers with high ceilings and good multi-modal access. Commercial and industrial construction activity improved throughout most of the District. A contact in Memphis reported a commercial expansion in Shelby Farms Park. A contact in Louisville reported a new commercial development project in northern Kentucky. A contact in Little Rock reported a new office building under construction in Pinnacle Hills Promenade in Rogers, Arkansas. A contact in St. Louis reported an increase in commercial construction projects in north St. Louis County.

**Banking and Finance**

Total loans outstanding at a sample of small and mid-sized District banks increased 2.8 percent from mid-March to mid-June. Real estate lending, accounting for 72 percent of total loans, increased 1.4 percent over this period. Commercial and industrial loans, accounting for 16 percent of total loans,
increased 4.7 percent over the period. Loans to individuals, accounting for 5.1 percent of total loans, increased 4.6 percent over the period. All other loans, accounting for 6.8 percent of total loans, increased 12.5 percent over the period. During this period, total deposits at these banks decreased 1.7 percent.

**Agriculture and Natural Resources**

As of late June, District farmers had completed the corn, cotton, and rice plantings. In contrast, soybean and sorghum plantings were behind the 5-year average rate of progress in Tennessee, Arkansas, Mississippi, and Kentucky. Over 90 percent of the District’s corn, cotton, rice, sorghum, and soybean crops were rated in fair or better condition. The winter wheat harvest was behind its 5-year average rate of progress for all District states. Year-to-date coal production in the District for May 2014 was 1.5 percent lower compared with the same time last year. However, District coal production for May 2014 was 0.3 percent higher than in May 2013.

**Employment, Wages, and Prices**

Business contacts in the District indicated that wage and employment growth has been modest, while prices have increased slightly since the previous report. Contacts in the manufacturing sector throughout the District cited lack of skilled blue-collar and technical workers as a concern, in some cases limiting business expansion. Contacts in Little Rock and Louisville noted that wages are rising moderately for positions where the employment supply is limited. New hiring reports from Louisville were notably positive: A mall that will employ more than 1,000 employees is set to open, and an e-commerce retailer is filling more than 500 full-time jobs at its distribution center to meet growing demand.
NINTH DISTRICT–MINNEAPOLIS

The Ninth District economy grew moderately since the last report. Increased activity was noted in consumer spending, tourism, commercial construction and real estate, professional services, manufacturing, and energy and mining. Activity in residential real estate and agriculture was mixed, while decreased activity was noted in residential construction. Hiring outpaced layoffs in most areas of the district. Wage increases were generally modest, while overall prices remained relatively level.

Consumer Spending and Tourism

Consumer spending increased modestly on net. Sales at a Minnesota-based apparel retailer were up slightly from a year earlier, while comparable sales in stores at a Minneapolis area mall were down slightly. A Minnesota-based food producer recently reported a slight decrease in sales. Meanwhile, a manager of a mall in Montana reported that recent sales were up about 7 percent compared with a year ago. An auto dealer in Montana noted that sales have recently picked up after a slow start to the year.

Tourism activity was up from a year ago. Some Montana tourism-related businesses noted an increase in reservations at campgrounds and for outfitting and guiding services during the early part of the summer. According to a survey conducted by the Minnesota state tourism office, 38 percent of respondents from lodging and camping properties expect summer occupancy to be higher than a year ago, while 13 percent expect decreases; the outlook was slightly more positive than last year’s survey. During the first five months of 2014, occupancies in the tourist destination of Deadwood, S.D., were up 5 percent compared with a year earlier. Relatively strong hotel occupancy rates were reported in the Minneapolis-St. Paul area.

Construction and Real Estate

Commercial construction activity increased since the last report. Several new commercial developments were planned across the District. A few examples include a medical office building planned in South Dakota, an industrial building in eastern North Dakota, a mixed-use development in Minnesota, and a natural resource processor in Montana. The value of May commercial permits in Billings, Mont., more than quadrupled from last year. However, in Sioux Falls, S.D., commercial permits in June were down from a year ago. Residential construction decreased from last year. In the Minneapolis-St. Paul area, the value of June residential permits decreased slightly compared with a year earlier. The value of permits issued in May decreased in the Bismarck, N.D., area from a year ago.
The value of May single-family residential building permits in Billings was down from last year, but multifamily building was up. In contrast, the value of May residential permits in Sioux Falls increased more than 40 percent from a year earlier.

Activity in commercial real estate markets increased since the last report. Several commercial real estate sales and leasing transactions were announced since mid-May. An office building in Minneapolis will be sold for a city record of $365 per square foot. Residential real estate market activity was mixed. In the Sioux Falls area, May home sales were down 7 percent, inventory increased 7 percent and the median sales price increased 4 percent relative to a year earlier. May home sales were down 10 percent from the same period a year ago in Minnesota; the inventory of homes for sale increased 3 percent and the median sales price rose 7 percent. However, in Eau Claire, Wis., May home sales were up 9 percent from the same period a year ago and the median sales price dropped 3 percent. May home sales increased relative to a year ago in the Bismarck area.

Services
Activity at professional business services firms increased since mid-May. Engineering contacts reported increased activity as a result of widespread flooding. An architect noted a slight increase in bidding activity since the last report. Trucking contacts reported increased demand due in part to rail capacity constraints.

Manufacturing
Growth in the manufacturing sector continued. Respondents to a June survey of purchasing managers by Creighton University (Omaha, Neb.) reported increased manufacturing activity in Minnesota and the Dakotas; the index for Minnesota reached its highest level since prior to the recession. Contacts from the metal forming industry reported that business growth in 2014 was faster than 2013’s pace; demand from the auto sector moderated, while demand from other industries was up, with the notable exception of agricultural equipment, which fell. Contacts who produce capital equipment for manufacturers noted that demand for machinery was strong and that the market for used equipment had “dried up.”

Energy and Mining
Activity in the energy sector remained strong, while mining was steady. Late-June oil and gas exploration activity decreased in Montana and increased in North Dakota from a month earlier. Oil production bounced back up after dipping during the extreme winter cold. Two new pipelines to carry oil from North Dakota were proposed. Falling corn
prices have been a boon to ethanol producers, according to industry contacts. Output at Minnesota iron ore mines was roughly level with last year and was slightly below expectations. Activity was restrained in part because of the winter and a rail backlog, but demand from the steel industry also appears to have slowed. In contrast, exploration or permitting was under way for several planned nonferrous mines throughout the District.

**Agriculture**
District crop producers made progress catching up on a late spring, but flooding due to heavy rains led to crop losses in some areas. Corn and soybean emergence rates were consistent with five-year averages, and most crops were in good or excellent condition. District producers planted fewer acres of corn and more soybeans this year, in line with expectations. The USDA forecasts solid harvests and a slight reduction in crop prices by the end of the year. Prices received by farmers fell in June from a year earlier for corn, soybeans, wheat, and hay; prices increased for cattle, hogs, poultry, eggs, and milk.

**Employment, Wages and Prices**
Hiring outpaced layoffs in most areas of the District. A number of business contacts noted increased difficulty finding qualified employees for open positions. In Minnesota, a call center was hiring 160 new workers, a bus manufacturer announced an expansion that will create over 150 new jobs, a pharmaceutical research firm is establishing a new facility that will create 100 new jobs, a safety equipment manufacturer was adding 100 jobs, and a financial services firm was expanding its information technology staff by 50 workers. However, a printing operator announced that it will close a facility in Minnesota, affecting 280 workers.

Wage increases were generally modest. For example, wages for manufacturing workers in District states were up about 1 percent for the three-month period ended in May compared with the same period a year earlier.

Overall prices remained relatively level. End-of-June gas prices in Minnesota were slightly higher than prices in mid-May. Metals prices were generally flat since the last report, while lumber prices decreased slightly.
The Tenth District economy expanded modestly in late May and June, and most contacts anticipated stronger growth in the months ahead. Consumer spending rose modestly, with retailers, auto dealers and restaurant contacts reporting slightly higher sales and tourism contacts reporting sharply stronger activity. District manufacturing activity continued to expand, while transportation and wholesale trade contacts noted moderately higher sales. Residential and commercial real estate activity strengthened further, while construction activity ticked up with modest additional gains expected in the coming months. Bankers reported steady overall loan demand, improved loan quality and a slight increase in deposit levels. Crop prices dropped for wheat, corn and soybeans, while cattle and hog prices continued to rise. District energy activity picked up as the number of active oil rigs expanded and natural gas rigs held steady. Prices for raw materials and finished goods rose slightly since the last survey, and wage pressures remained modest outside of some skilled trade positions.

**Consumer Spending.** Consumer spending rose modestly in late May and early June, and contacts were increasingly optimistic about future sales growth. District retail sales continued to increase, but at a slower pace than during the previous survey period. Retail sales were well-above year-ago levels, and retail contacts anticipated robust sales in the months ahead. Several retailers noted stronger sales of home improvement and building materials, while sales for men’s apparel were weak. Automobile sales picked up slightly, with mid-sized cars and SUVs selling particularly well. Automobile sales remained higher than a year ago, and contacts expected strong growth in the coming months. Restaurant sales increased slightly, with sales remaining considerably higher than a year ago. Expectations for future restaurant sales moderated somewhat but still remained solid. District tourist activity improved markedly, in part due to seasonal summer increases, with conditions considerably better than the previous year. Tourism contacts expected stronger activity to continue throughout the summer and early fall months.

**Manufacturing and Other Business Activity.** District manufacturing activity expanded modestly, although the pace of growth slowed somewhat compared to the previous survey period. Production fell slightly at non-durable goods-producing plants, while production increased for the majority of durable products, except for machinery which decreased considerably. Growth in new orders and employment moderated in June, while order backlogs
rose. Expectations for future factory activity remained steady at generally solid levels. Manufacturers’ capital spending plans continued to rise and remained higher than a year ago. Wholesale trade and transportation firms reported moderate sales growth from the previous survey, particularly for construction products, while growth in professional and high-tech services activity eased. Wholesale trade, transportation, professional, and high-tech firms anticipated higher future sales activity in coming months. Reduced government spending continued to impact several high-tech firms in the area.

**Real Estate and Construction.** District real estate activity increased moderately in late May and June, while construction activity rose slightly. Residential home sales expanded modestly, particularly for low- and medium-priced homes which continued to outsell higher-priced homes. Residential home inventories continued to decline, and home prices increased further. Residential real estate contacts expected additional improvement in the coming months, with moderately higher sales and prices. According to builders and construction supply contacts, construction activity continued to expand, although at a slower pace than during the previous survey period. Sales of construction supplies increased moderately, and housing starts were flat. However, builders anticipated starts and buyer traffic to increase modestly in the months ahead. Mortgage activity picked up slightly, but remained lower than a year ago as a decrease in refinancing activity continued to weigh on overall activity. Commercial real estate activity strengthened further, with lower vacancy rates and increased sales, construction and absorption. The commercial real estate market was expected to expand moderately over the next few months.

**Banking.** Bankers reported steady overall loan demand, improved loan quality, and a slight increase in deposit levels. Respondents reported a minor decrease in demand for residential real estate loans. Most respondents reported steady demand for commercial real estate loans, agricultural loans, and consumer installment loans. Demand for commercial and industrial loans was relatively steady with a slight decrease compared to the last survey. Bankers reported improving loan quality compared to a year ago, and all bankers expected the outlook for loan quality to either improve or remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories. In addition, respondents reported a minor increase in deposits.
**Agriculture.** Heavy summer storms in June improved soil moisture for developing crops and pastures but also caused some wind, hail and flood damage. Wet fields delayed the winter wheat harvest in Oklahoma and Kansas, and yields depended on the extent of drought, freeze and hail damage. Despite expectations of a poor wheat harvest in much of the District, wheat prices fell since the last survey period. The corn and soybean crops were in good condition overall, and improved growing conditions led to a drop in prices for both crops. Cattle prices continued to rise, but feeder cattle prices have recently increased much faster than fed cattle prices and narrowed margins for feedlot operators. The cumulative effect of reduced piglet numbers due to the swine virus and strong export demand for pork supported further gains in hog prices, even though pork production forecasts were raised due to heavier dressed weights and higher than expected slaughter in the second quarter.

**Energy.** District energy activity ticked up in late May and June. Business activity held steady, drilling increased slightly, and expectations for the coming months strengthened further. The number of active oil rigs increased, while natural gas rigs remained basically unchanged. Crude oil spot prices spiked in late June as a result of geopolitical conflicts in the Middle East threatening supply, but have come down somewhat as the threat has weakened. Natural gas spot prices have moderated slightly since the last survey period, but remained above year-ago levels. Energy contacts expected oil and gas prices to stay near current high levels, and contacts reported an increase in planned capital expenditures. Several producers commented on increased drilling costs due to advancing technology, which is currently being offset by high oil prices.

**Wages and Prices.** Prices grew at a slightly slower pace in most industries, and wage pressures were modest. Retail prices moderated somewhat but still increased over the previous survey period. The pace of growth slowed slightly for manufacturing raw materials and selling prices, but contacts expected further increases in future months. Transportation input prices were flat, and fewer firms raised selling prices, while restaurant menu prices continued to rise due to elevated food costs. Construction materials prices were slightly higher in June, and most builders expected further increases. Wage pressures were modest in most industries, with the exception of manufacturing in which almost half of manufacturing contacts reported raising wages more than normal to attract or retain some workers. Some contacts continued to report a short supply of workers, particularly for drivers, construction, high-tech, and skilled positions.
The Eleventh District economy grew at a moderate pace over the past six weeks. Manufacturing activity continued to increase, although there were a few reports of weaker demand. Retail and automobile sales strengthened, and were above year-ago levels. Demand for nonfinancial services was stable or improved, while growth in loan demand slowed over the reporting period. Sales of single-family homes were flat to down slightly, but apartment, office and industrial leasing activity was strong. Demand for oilfield services remained robust, and agricultural conditions improved. Prices were unchanged or increased modestly at most responding firms, and employment held steady or rose slightly. Outlooks remained optimistic.

**Prices** Most responding firms said prices held steady or increased slightly since the last report. Fabricated metals producers noted continued increases in selling prices and expect more in the next six months. Food producers said that selling prices had moved up due to rising input costs, especially for dairy and meat products. Retail prices rose slightly, while automobile selling prices were unchanged. A transportation service firm said rates were up slightly, partly due to rising fuel costs, and airlines said airfares and fees had moved up.

The price of West Texas Intermediate crude rose since the last report, while natural gas prices were flat. Gasoline prices moved up due to higher oil prices and the start of the summer driving season.

**Labor Market** Employment levels held steady or increased modestly and some contacts noted continued difficulty in finding skilled workers. Reports of hiring came from airlines, auto dealers, law firms, and manufacturers of brick, fabricated metals, food, high tech and transportation equipment. Retail sector employment rose, and one contact noted that hiring was in line with increasing sales. Staffing firms noted a slight increase in headcount, and an accounting firm noted growing success in hiring out-of-state talent. Energy contacts continued to report a very tight labor market and respondents in food manufacturing and retail industries reported difficulty finding workers in oil-producing regions. Shortages of labor in the housing sector continued, although one contact noted slight easing.

Reports of upward wage pressures were roughly the same as in the last report. Wage pressures remained strongest for skilled workers in the energy and construction sectors, but there were reports of modest upward pressures in some other industries, including airlines, high tech, fabricated metals, primary metals and transportation equipment manufacturing.

**Manufacturing** Reports from manufacturers were mostly positive, although some firms noted weaker demand since the last period. Construction-related manufacturers said demand was stable or rose slightly. Lumber producers noted weaker-than-expected demand over the past six weeks, while a cement manufacturer saw strong demand in Houston and Dallas and two brick manufacturers noted increased
demand in Austin and San Antonio. Fabricated metals manufacturers noted a broad-based increase in orders, and said that demand was up 10 percent from year-ago levels. Primary metals producers reported steady growth in demand.

Contacts in high tech manufacturing reported that sales were stable to slightly up since the last report, and inventories were at desired levels. Outlooks were positive, and forecasted demand for memory and logic devices for the remainder of the year was revised up from the last reporting period.

Transportation equipment manufacturers said demand was flat to down compared to the last report, but they expect sales this year to exceed last year’s levels. Food producers said demand growth remained flat over the reporting period, but overall sales were slightly above year-ago levels. Refinery utilization rates eased over the reporting period. Chemical production strengthened with the end of the spring maintenance season. Outlooks of refiners and chemical producers remained positive.

Retail Sales Retail sales strengthened over the past six weeks. Contacts noted slightly stronger growth than the previous reporting period, and demand was above year-ago levels. According to one national retailer, demand in Texas continued to outperform the national average. Outlooks for the remainder of the year were optimistic.

Automobile sales increased since the previous report partly due to pent-up demand and partly due to the start of the summer selling season. Demand was up slightly year-over-year, and one contact noted that sales were finally back to pre-recession levels. Inventories varied by manufacturer, and were at desired levels. Outlooks for the third quarter and the remainder of the year were positive.

Nonfinancial Services Demand for staffing services held steady, although a few contacts noted increased demand for oil and gas workers. Outlooks were more optimistic than the previous report. Accounting firms reported a seasonal slowdown in demand, but activity remained at high levels. Outlooks were positive and contacts expect a pickup in demand for audit and advisory services in coming months. Demand for legal services increased slightly in the last six weeks. Real estate-related business continued to grow and corporate work edged up, but demand for litigation services was weaker than expected.

Transportation service firms said overall cargo volumes increased since the last report and outlooks continued to be positive. Intermodal cargo volumes increased over the past month but were even with year-ago levels. Growth in small parcel shipments picked up, with demand growth led by online and personal and health care retailers. Railroad contacts reported notable increases in grain, crushed stone and lumber and wood volumes, while shipments of petroleum, primary forest materials and nonmetallic minerals declined.

Airlines reported that passenger demand was flat to up since the last report. Demand for domestic travel remained solid, while demand for foreign travel, particularly to Europe and Asia was weak. Outlooks were unchanged, with one contact expecting this year to be stronger than 2013.
**Construction and Real Estate**  Single-family housing activity was flat to slightly down since the last report. Sales and buyer traffic held steady, but some contacts reported a seasonal slowdown in activity. Low inventories and higher construction costs continued to push up home prices. Contacts were optimistic that demand will remain strong this year. Robust apartment demand pushed up occupancy rates, and increases in rents were strong in several major metros. Construction activity remained brisk, and contacts are optimistic in their outlooks through year-end.

Office leasing activity remained solid and occupancy high during the reporting period. Rents continued to trend upwards, especially for Class A office space, and were above their pre-recession peaks in some markets. Office investment activity picked up in Dallas but slowed in Houston. Demand for industrial space was strong, with vacancy rates in Dallas and Houston near historic lows. Outlooks remained generally positive.

**Financial Services**  Loan demand grew at a slightly slower pace compared to the previous reporting period. Commercial and residential real estate lending continued to grow, especially in Dallas, Houston and Austin, but one contact noted that regulations were limiting land development loans. Mortgage lending continued to increase at a modest pace, however, auto loan growth showed signs of cooling off. Small to medium-sized business lending fell slightly but remained at robust levels. Loan quality continued to improve and interest rates on loans remained low due to strong competition for borrowers. Deposit volumes increased more than anticipated, while deposit rates remained low. Softer growth during the reporting period has somewhat tempered outlooks.

**Energy**  Demand for oilfield services remained robust in the Eleventh District. Growth in Texas drilling activity continued to be concentrated in the Permian Basin in West Texas, but southeast Texas saw an increase in drilling as well. Margins for oilfield service providers were up slightly in the Permian Basin and the Gulf of Mexico, but generally remained narrow. Geological service firms continued to see strong demand. Outlooks for the rest of the year were more positive than during the prior reporting period.

**Agriculture**  District drought conditions eased over the reporting period. Widespread rains greatly improved prospects for row crops, especially cotton, but came too late to aid the Texas wheat crop, which is expected to be down 20 percent this year. Most crop prices declined over the past six weeks due to expected stronger U.S. production. Pasture conditions improved and cattle prices continued to set new historical highs. Domestic demand for beef remained very strong despite record prices, while international demand for cotton remained low.
Summary

Economic activity in the Twelfth District continued to improve moderately during the reporting period of mid-May through June. Overall price inflation remained quite modest, and wage pressures were well contained on net. Most contacts indicated that retail sales growth was unchanged from the previous Beige Book. Demand for business and consumer services ticked up. Manufacturing activity improved. Drought conditions contributed to reduced production of some fruits, vegetables, and livestock products. Activity in real estate markets advanced, although growth in the residential sector slowed somewhat. Loan demand increased overall.

Prices and Wages

Price inflation overall remained quite modest, although the pace of food and energy price increases appeared to pick up. Food price inflation has risen, driven by higher price inflation for beef, pork, and dairy items, as drought conditions in California constrain supplies. A utilities provider expects an acceleration in natural gas and electricity prices to occur in the near-term. Contacts indicated that the prices of some raw materials used in construction rose further. A lumber manufacturer was able to pass higher costs through to higher prices for customers.

Most contacts observed continued wage increases of 2-3 percent per year. However, in fast-growing regions, certain specialized positions for which the supply of qualified workers is scarce experienced much stronger wage gains. In addition, some contacts’ firms have felt pressure to offer slightly higher starting salaries in an effort to attract talent from competitors. Several contacts pointed to rising minimum wages as a source of upward wage pressure.

Retail Trade and Services

Most contacts indicated that retail sales growth was unchanged since the previous reporting period. Sales of low-end and mid-range technology goods were strong, offsetting relatively weak sales of premium devices. Contacts noted that sales in the Internet and digital media sector increased as well, particularly for health and fitness e-books. An apparel retailer noted that inventories increased. In general, online retailers
experienced strong sales and continued to put pressure on traditional brick-and-mortar retailers. Contacts observed robust demand for autos and home-related goods. Reports from auto dealerships pointed to strong sales growth for new cars, supported by aggressive financing for creditworthy borrowers. However, sales of used vehicles softened.

Demand for business and consumer services ticked up. Technology service providers reported healthy overall conditions, as both small and large businesses continued to make investments in cloud services, big data analytics, and security. Several contacts noted ongoing weak demand for dining out, as reflected in declining same-store sales in the casual dining segment of the food service industry. The level of travel and tourism activity largely held steady or improved in most major District travel destinations.

**Manufacturing**

District manufacturing activity improved during the reporting period of mid-May through June. Demand for semiconductors strengthened and inventories declined. Utilization rates at electronic components factories ticked up, approaching rates associated with higher capital expenditures during past business cycles. Contacts observed strong production in the commercial aircraft industry due to a sustained backlog of orders. Contacts noted that many biotechnology manufacturers experienced positive revenue trends of late and that new orders were up compared with last year. A manufacturer of renewable energy equipment noted that capacity utilization edged up, but significant capacity remains available. Defense-related manufacturers indicated that capacity utilization rates declined and the pace of new orders slowed further. A metals fabricator reported that business conditions were largely stable. Steel manufacturers noted that capacity utilization rates at mills producing inputs for the auto industry have been over 90 percent. However, at mills producing inputs for the construction industry, including nonresidential, commercial, and infrastructure projects, capacity utilization rates have been lower, in the 60-65 percent range.

**Agriculture and Resource-related Industries**

Contacts indicated that drought conditions contributed to reduced production of some agricultural and resource-related goods. Contacts expressed ongoing concerns about water costs and availability. They also mentioned that it would be challenging for regulatory agencies to address issues related to pricing and
prioritizing limited water supplies if low levels of rainfall and snowpack persist next year. Contacts observed reductions in herd sizes and plantings of annual crops, including tomatoes and rice. Most permanent crops, including nut and fruit trees, have not been affected yet, but some farmers may choose to reduce new plantings or remove less productive orchards. Farmers in Idaho anticipate high yields of grains, wheat, and potatoes this year. Dairy operations continued to benefit from low feed costs. Contacts noted that demand for logs slowed overall, as demand from Asian markets cooled.

**Real Estate and Construction**

Activity in real estate markets advanced, but growth in the residential sector has slowed since the start of the year. The rate of increase of home prices has slowed in many areas. Several contacts reported that, except at the very high end, the level of home sales also is down from a year ago. Residential construction activity picked up, especially for multifamily units and higher-priced projects. However, various contacts reported that activity has been constrained due to shortages of available lots, construction materials, and workers. Vacancy rates for commercial space were mixed. Some contacts reported low vacancy rates overall, while others pointed to high vacancy rates—particularly for retail space—in part due to transitions to online distribution. Private-sector commercial construction activity increased modestly in most areas but more robustly in the San Francisco Bay Area and Southern California. Contacts from Southern California and Hawaii also reported vigorous public-sector construction activity.

**Financial Institutions**

Loan demand increased overall. Commercial real estate, home mortgage, and construction loan demand expanded modestly, although contacts noted that refinance volumes declined. Demand for auto loans held steady, but some contacts noted a decline in the credit quality of consumers. In most areas, business loan demand increased only slightly and remains relatively weak. Some contacts observed a stronger uptick in loan demand from smaller businesses. Contacts continued to note that the availability of commercial credit largely remained limited to the highest quality borrowers and that lenders are competing vigorously on rates and terms for such borrowers. Contacts reported robust venture capital and private equity financing in the District. Companies backed by venture capital are receiving ample funding.