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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

October 2015

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

OCTOBER 2015

TABLE OF CONTENTS

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

SUMMARY*

Reports from the twelve Federal Reserve Districts point to continued modest expansion in economic activity during the reporting period from mid-August through early October. The pace of growth was characterized as modest in the New York, Philadelphia, Cleveland, Atlanta, Chicago, and St. Louis Districts, while the Minneapolis, Dallas, and San Francisco Districts described growth as moderate. Boston and Richmond reported that activity increased. Kansas City, on the other hand, noted a slight decline in economic activity. Compared with the previous report, the pace of growth is said to have slowed in the Richmond and Chicago Districts. A number of Districts cite the strong dollar as restraining manufacturing activity as well as tourism spending. Business contacts across the nation were generally optimistic about the near-term outlook.

Consumer spending grew moderately in the latest reporting period. Most Districts reported that non-auto sales grew at a modest or moderate rate, while vehicle sales generally grew more strongly; tourism across the nation was mixed. Nonfinancial services activity generally strengthened since the previous report, although freight transport activity weakened.

Manufacturing turned in a mixed but generally weaker performance during the latest reporting period, with a number of Districts noting adverse effects from the energy sector. Some strength was reported in the motor vehicles, aerospace, and transportation equipment industries, while metals industries were generally weaker—in part, due to the strong dollar.

* Prepared at the Federal Reserve Bank of New York and based on information collected on or before October 5, 2015. 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.

Both the housing and commercial real estate markets improved since the last report. Home prices and sales volume increased in almost all regions, and a number of Districts noted relative strength in the market for lower or moderately priced homes. Both residential rental markets and commercial real estate markets were mostly stronger. Commercial and residential multi-family construction showed further strength; single-family construction activity was more mixed but did increase modestly.

Reports on the banking and finance sector were generally positive—lending activity increased, loan quality was steady to improved, and lending standards were little changed or somewhat easier.

Agricultural conditions were mixed. Growing conditions and farm output were solid in some Districts, but there were adverse effects from droughts in the south, as well as excessive rainfall in the Richmond and St. Louis Districts. Lower crop and livestock prices raised concerns that farm income may weaken. Activity in the energy industry weakened since the last report.

Labor markets tightened in most Districts, with some reports of labor shortages—particularly for skilled workers. Wage growth was mostly subdued, though there were scattered reports of increased wage pressures. Prices remained fairly stable across the nation, as most Districts reported that prices of both inputs and finished goods were little changed or up only slightly, though some Districts report declines for energy, as well as other inputs.

Consumer Spending and Tourism

Consumer spending grew at a moderate pace over the latest reporting period. Most Districts indicated that non-auto retail sales expanded at a modest or moderate rate. New York and Atlanta characterized sales as mixed, while Richmond and Chicago noted that

growth slowed; Kansas City, however, indicated that sales weakened slightly. Contacts were described as generally optimistic about the sales outlook in the Boston, Philadelphia, Atlanta, Kansas City, and Dallas Districts.

Vehicle sales generally increased in the latest reporting period. Richmond, Atlanta, Chicago, and Dallas characterized auto sales as strengthening; New York said they were steady to stronger; and St. Louis and Minneapolis described them as mixed. Modest growth in vehicle sales was reported in the Philadelphia, Cleveland, and Kansas City Districts.

Tourism was mixed across the nation. Minneapolis and San Francisco indicated increased activity, and Philadelphia, Atlanta, and Chicago reported that tourism was at high or strong levels. In contrast, tourism was seen to have weakened in the New York, Kansas City, and Dallas Districts. The strong dollar was mentioned as a restraining factor by New York, Minneapolis, and Dallas.

Nonfinancial Services

Nonfinancial services activity generally strengthened since the previous report. The New York, Philadelphia, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts reported that service-sector activity expanded, on balance, while such activity was reported to be mixed in the Richmond District. Revenues increased for advertising and business services firms in the Boston District, while Dallas reported particularly strong demand for logistics and accounting services and little evidence of negative effects on professional services from lower energy prices. Activity in the technology services sector expanded in the San Francisco District, particularly for cloud-based remote services.

On balance, goods transportation services softened since the previous report. Some declines in shipments and cargo volumes were noted in the Cleveland, Atlanta, St. Louis,

Kansas City, and Dallas Districts, particularly metals and energy-related shipments. Partially offsetting these declines, motor vehicle shipments were said to have increased in the Cleveland and Dallas Districts. In addition, port contacts in the Richmond District noted that exports softened and imports strengthened due to the strong dollar, while port contacts in the Atlanta District reported strong demand across all cargo types. Sturdy demand for trucking services was noted in the Atlanta and Dallas Districts.

Manufacturing

On the whole, manufacturing conditions were generally sluggish. Reports were mixed across Districts, and among those that saw some increase in activity, such improvement was mild. Chicago and St. Louis reported modest growth in manufacturing activity, and Dallas reported that most manufacturers saw an increase in demand since the last report. On the other hand, Cleveland, Richmond, Boston, Minneapolis, and San Francisco all reported that manufacturing activity was flat or mixed, while the remaining four Districts—New York, Philadelphia, Atlanta, and Kansas City—noted that manufacturing activity had declined. Several Districts reported fairly strong growth in activity related to motor vehicles, aerospace, and transportation equipment. Cleveland, Chicago, and San Francisco all reported that the demand for steel remained weak, with the strong dollar and competition from China cited as factors driving this trend. Falling demand from the energy sector was also cited as a source of weakness by a number of Districts. Activity related to primary and fabricated metals was mixed, with Chicago and Kansas City seeing weakness in these sectors, while Philadelphia, St. Louis and Dallas saw some expansion in metals related industries. Demand for high tech manufacturing picked up slightly in the Dallas District, while semiconductor sales slowed in the San Francisco District.

Real Estate and Construction

Residential real estate activity has generally improved since the last report, with almost all Districts reporting rising prices and sales volume. One exception was the Chicago District, where prices and sales volume were generally steady. A number of Districts noted that the market for lower or moderately priced homes has outperformed the high end of the market. The inventory of available homes was reported to be low in the Boston, New York, Richmond, and St. Louis Districts; and San Francisco reported a shortage of available land in some areas. On the other hand, Philadelphia reported adequate inventories, and Dallas noted a fair amount of supply in the pipeline. Boston, New York, and Chicago indicated rising residential rents, while Minneapolis reported sharp declines in rents in energy-producing areas of North Dakota. Residential construction has been mixed but generally stronger in the latest reporting period, with multi-family outpacing single-family construction. Strong multi-family construction was highlighted in the New York, Cleveland, Richmond, and San Francisco Districts, while Atlanta reported strong residential construction generally. However, Minneapolis and Kansas City reported declines in new home construction. Philadelphia mentioned a lack of new construction, while Dallas reported that new construction has been restrained by labor shortages; Chicago indicated little change.

Commercial real estate markets have shown signs of strengthening in all twelve Districts. Most Districts noted improvement across all major segments, though New York and St. Louis noted some increased slack in the market for retail space. Commercial construction was also stronger in most Districts. Boston and St. Louis noted brisk construction in the health sector, including senior care facilities, and Cleveland also indicated

strong demand for senior living structures. New York, on the other hand, noted some pullback in new commercial construction, though activity remained fairly brisk.

Banking and Financial Services

Reports from the banking sector were generally positive. Loan demand or volume was reported to be growing in the Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Dallas, and San Francisco Districts. Other Districts indicated mixed loan demand: New York reported rising demand for commercial loans but declining demand for refinancing, and Kansas City indicated weaker demand for agricultural loans but steady demand in other categories.

Credit conditions were mixed but mostly improved. Improved loan quality or declining delinquency rates were noted in New York, while Cleveland, Richmond, and Kansas City reported little change. Richmond and Chicago indicated some easing in lending standards, while New York, Kansas City, and Dallas reported no change. San Francisco reported tight lending conditions in the residential real estate segment.

Agriculture and Natural Resources

Agriculture conditions were mixed. Growing conditions and farm output were solid in some Districts, while either drought or excessive moisture hampered production in other Districts. Several Districts reported lower prices for crops and livestock, raising concerns that farm income may weaken as a result. Drought conditions were seen in parts of the Atlanta and Dallas Districts, and excessive rainfall was reported in the Richmond and St. Louis Districts. Corn and soybean crops were reported as being in excellent shape by Chicago, Minneapolis and Kansas City, and the San Francisco District reported that grain yield has been excellent.

Activity in the energy industry declined further since the last report, particularly in the Minneapolis, Kansas City and Dallas Districts, where the number of active drilling rigs fell. Dallas said that the demand for oilfield services remained depressed, and exploration and production companies reduced business activities in the Atlanta District. Coal production fell in the St. Louis District and in parts of the Richmond District, and natural gas production was flat in the Richmond District.

Employment, Wages and Prices

Labor markets generally tightened since the previous report. The New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas Districts indicated that employment was up modestly to moderately. Boston reported that most advertising and consulting firms planned to increase hiring, while manufacturers were cutting staff. Many Districts continued to report that employers were having difficulty finding skilled workers, and, in some cases, unskilled workers. Scattered labor shortages were reported in construction (Cleveland, Chicago, San Francisco), trucking (New York, St. Louis, Kansas City), and information technology (New York, Kansas City, San Francisco). However, contacts in the Philadelphia District noted relatively more growth of part time and temporary positions compared to full-time positions, and Dallas reported that layoffs in the energy industry were still underway.

Wage growth remained subdued in most Districts since the previous report. The Boston, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas Districts noted only slight to modest wage increases. To the extent that more significant wage increases were observed, they were largely concentrated among highly skilled workers in information technology, health care, professional services, and some of the skilled trades.

However, New York noted increased wage pressure for both skilled and less skilled workers, and San Francisco noted that the impact of higher minimum wages implemented over the past year began to filter through to the retail sector and resulted in increased wages for some lower-skilled workers.

Price pressures were said to be contained, as most Districts reported that both input and finished goods prices were little changed or up only slightly since the previous report. Contacts in the Kansas City District noted that prices grew more slowly than in recent months, and eased in some sectors. Moreover, low or declining prices for energy products, technology goods, some agricultural commodities, and metals were cited by some Districts.

FIRST DISTRICT – BOSTON

Business activity levels continue to increase in the First District, according to contacts. Most responding manufacturers, retailers, and advertising and consulting firms report higher revenues than a year ago with only one respondent in each of the three sectors citing flat or down results. Reports on commercial and residential real estate markets are similar to six weeks ago, with the strength of commercial leasing demand varying across markets and continued year-over-year gains in home sales and median prices in most of the New England states. Most consulting and advertising respondents plan to increase employment, but several manufacturers are cutting staff. Contacts cite very limited, if any, upward pressure on prices and say they plan to raise wages only modestly.

Retail and Tourism

Retailers consulted for this round report year-over-year changes in comparable-store sales ranging from flat to up by 7 percent. Most of these figures reflect performance recorded through the third quarter of 2015. A few contacts report that their third-quarter sales were good or better than expected, but one contact continues to report slightly softer sales growth across all regions of the United States since mid-June. Apparel, furniture, and items related to home improvement are selling well. Inventories are up slightly, due to continuing expected improvement in sales, adding merchandise for the holiday season, and stocking up on winter-related items. Expectations are that total 2015 sales will show gains between 3 percent and 8 percent compared with 2014.

Contacts continue to report that vendor prices remain steady or that they are seeing very modest increases of about 1 percent. Some contacts expect that the U.S. economy will continue to improve and that consumers are now more apt to spend. However, another feels that the U.S. economy has slipped back into a “sideways” momentum, perhaps in response to macro-political situations both domestically—the threatened government shutdown—and internationally, specifically involving Russia and Syria.

Manufacturing and Related Services

Of 10 firms contacted this cycle, only one, a manufacturer and retailer of furniture, reports falling sales. The furniture company says they are experiencing longer term decreases, but in addition they saw particularly weak sales accompanying the stock market declines in recent weeks. Another firm, a manufacturer of parts for the aerospace and automotive markets, reports higher sales than a year ago, but growth substantially lower than expected. Only one firm, a manufacturer of storage devices for computers, specifically mentions the slowdown in China as affecting results. Five contacts, including a manufacturer of lab equipment and a drug company, note the strong dollar as a headwind for their business.

Most firms report no news on the inventory front. The firm with slowing sales growth says they reduced inventory as a result of the lowered outlook.

No contacts report significant pricing pressure either in their end markets or from suppliers. Three contacts note the benefits of lower energy prices.

Four contacts report that they expect employment to decline. A manufacturer of postal equipment attributes cutbacks to fundamental changes in the nature of the company. A media company indicates the staff reduction is part of a long term trend in their industry. The manufacturer of aerospace and auto parts says declining sales growth led to layoffs and a substantial reduction in its temporary workforce.

Most responding manufacturers report capital spending consistent with earlier plans. The manufacturer of aerospace and auto parts, by contrast, has cut capital spending plans in recent months by 10 percent to 15 percent, expecting demand to slow further in coming months. Other manufacturing contacts say the outlook is stable.

Selected Business Services

Revenues are mostly up from a year earlier at responding consulting and advertising firms in the First District. A large advertising materials firm and a large pharmaceuticals consultant experienced mid-single digit growth over last year. Two smaller firms, a research and strategy consultant and a healthcare consultant, were up 20 percent from last year; both cited increases in demand, as businesses are making more drastic strategic changes and consolidation continues in the healthcare industry. A large economic consultant was flat over last year, as work related to mortgage-backed securities (MBS) litigation continued to decline; the replacements for the MBS work are diverse and include antitrust work with the Department of Justice and healthcare.

Consulting contacts increased or plan to increase compensation by 1 percent to 3 percent. The small research and strategy consultant increased headcount by 10 percent and hopes to add another 5 percent this year; they are finding it very difficult to find quality people to fill these positions. Both healthcare consultants are hiring in the mid-single digits; one says hiring has been easier than expected. The advertising materials firm increased employment 2 percent and the large economic analyst was flat on net, though they had to do more hiring to cover increased attrition. Contacts cite increased competition from tech jobs and difficulty in filling programming, IT, and e-commerce related positions.

Respondents are bullish regarding the fourth quarter, with most expecting revenue growth rates to be similar to recent experience. Specifically, contacts from larger firms forecast mid-single digit growth through next year and the small research and strategy consultant expects to end the year up 25 percent.

Commercial Real Estate

Conditions in the First District's commercial real estate markets are mostly unchanged since the last report. The strength of office leasing demand continues to vary across cities within the district. According to contacts, demand for office space remains robust in Boston and Portland, while leasing volume is gaining momentum in Providence and remains quite slow in Hartford. Portland's industrial leasing market is described as very strong, with a single-digit vacancy rate. Investment sales volume remains high in Boston and Portland and moderately strong in Hartford. In Providence, construction activity is concentrated in the higher education sector, but a multifamily project should break ground in the spring of 2016. In Maine, significant current and planned construction is coming from health-related

institutions, including some large senior living facilities, and multifamily construction remains active in Portland. Construction activity is limited in Connecticut but a few retail developments are being discussed. A regional lender to commercial real estate achieved an uptick in new loan volume but growth in outstanding loans continues to be hampered by high payoff rates among existing loans.

The outlook in Hartford was downgraded in response to fresh reports of fiscal stress in Connecticut and threats by a large employer to move its headquarters out of state. A contact says the near-term outlook for Portland is strong, but points to longer-term challenges to the state's economy related to its aging workforce. A Providence contact believes that office rent growth is possible by late 2016 if current absorption rates persist. The outlook for greater Boston remains optimistic, but one contact is concerned that the flow of investment capital from sovereign wealth funds into Boston's commercial real estate market could slow in response to the impact of lower oil prices on the funds from oil-rich countries such as Norway and Russia.

Residential Real Estate

Closed sales of both single-family homes and condos increased on a year-over-year basis in each of the six First District states. In Boston, the volume of closed sales in August was the highest on record. In Rhode Island, single-family home sales saw the ninth consecutive month of increase from the prior year, the longest running growth period since 2012. One contact notes that the market seemed to be stronger than usual for late summer, possibly due to delays on the inventory side that resulted from the harsh winter weather. Another says the season is wrapping up with "solid momentum." Median sales price also increased from last year in most states, but not for single-family homes in Connecticut and Vermont nor condos in Maine and Vermont, which saw moderate price decreases. Massachusetts contacts note that prices increased more markedly in the condo market than in the single-family home market. Continuing recent trends, inventory decreased year-over-year in every state in the First District. This marks the 42nd consecutive month of inventory decline in Massachusetts. Contacts cited low inventory as a persistent issue for buyers as it has created a strong "seller's market" in which sellers are increasingly willing to move on to other buyers. Similarly, the months of available supply and average days on market decreased from August of 2014 for both single-family homes and condos in all the New England states. A Maine contact notes that inventory continues to move quickly and competition among buyers is robust.

Overall, contacts express an optimistic outlook. Most contacts are anticipating a stronger fall than last year, as increases in August pending sales for both single-family homes and condos suggest that closing activity will continue to increase in the coming months. Massachusetts, in particular, saw huge year-over-year increases, with pending sales of single-family homes rising by over 40 percent. Several contacts note ongoing concerns regarding low inventories and one contact cites mild concern about the impact of potentially rising interest rates on home affordability.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District has continued at a modest pace since the last report. Selling prices remain generally stable, while service-sector firms continue to note upward pressure on input prices and wages. Labor markets have shown further signs of tightening since the last report. Consumer spending has been mixed but up moderately, on balance, while tourism has remained weak. Manufacturers report further softening in activity. Housing markets continued to improve, while commercial real estate markets were mostly stronger. Multi-family residential construction has been increasingly robust, whereas commercial construction has slowed. Finally, banks report that loan demand has leveled off, while delinquency rates have continued to improve.

Consumer Spending

Retailers report mixed results for August and September. One major retail chain indicates that sales in the region came in below plan in both months, slipping below comparable 2014 levels, whereas another chain notes that sales picked up in late August and remained above plan through September. Retailers in upstate New York report that sales were sturdy in August but slowed a bit in September. A number of contacts note that the strong dollar has adversely affected sales, particularly in areas frequented by foreign shoppers. Still, retail inventories are generally said to be at satisfactory levels, and selling prices are reported to be generally steady.

Auto dealers in upstate New York indicate that new vehicle sales have been steady to stronger since the last report. Buffalo-area dealers indicate that sales were little changed in August but picked up noticeably in September, while Rochester-area dealers describe volume as steady in both months. Used vehicle sales are reported to have strengthened somewhat. Wholesale and retail credit conditions continue to be described as in good shape.

Tourism activity has shown further signs of weakening—particularly in New York City, where revenues at both hotels and Broadway theatres are reported to have slipped below comparable 2014 levels. Retail contacts also note particular weakness in tourism-related sales. Separately, the

Conference Board's September survey shows consumer confidence in the region (NY, NJ, Pa), as well as in New York State, surging to a multi-year high.

Construction and Real Estate

The District's housing markets have continued to strengthen modestly since the last report, while multi-family residential construction remains brisk. The home resale market in western New York State has been particularly strong across the board, with a combination of limited supply and strong demand driving up prices and making bidding wars commonplace. New York City's co-op and condo market has also been fairly robust, with sales volume fairly strong, despite low inventories; the average time properties are on the market is reported to be at record low, and many transactions have been above the initial listing price. Compared with a year ago, apartment sales prices are up substantially in Brooklyn and Queens, while they are up moderately in Manhattan. Across other parts of the District—Long Island, northern New Jersey, and the Lower Hudson Valley—home prices are generally stable or rising modestly.

Residential rental markets generally remain on an upward trend. Rents are reported to be running moderately ahead of a year ago in Manhattan and Queens, and are up modestly across northern New Jersey and most of upstate New York. Residential rents are up more substantially across prime areas of Brooklyn.

Commercial real estate markets across the District were mostly stronger. Office availability rates edged down throughout the District in the third quarter, while asking rents for office space rose substantially in New York City, Long Island, and across parts of upstate New York and more modestly in northern New Jersey and Westchester and Fairfield counties. The market for industrial space also continued to tighten. In contrast, vacancy rates for retail space climbed to multi-year highs across New York City, Long Island and northern New Jersey.

Commercial construction activity has retreated somewhat but remains at a high level; however, considerably fewer new projects have been started in recent months. On the residential

side, while single-family residential construction activity remains subdued, multi-family construction has been increasingly robust—particularly in New York City. One construction industry contact in New Jersey reports that new residential development has been particularly robust in areas adjacent to New York City.

Other Business Activity

The labor market has shown further signs of strengthening in recent weeks. Business contacts in most industries report they are adding workers, on net, and plan on doing so in the months ahead. One noteworthy exception is manufacturing, where more contacts say they have reduced than added to their workforce. Two major New York City employment agencies report that hiring activity has been particularly brisk for this time of year, while a major agency in upstate New York notes that hiring activity remains steady at a moderate pace. A growing number of job candidates are reported to be getting multiple offers, and this is putting more upward pressure on starting salaries—and not only for more skilled workers. Employment agencies note particularly strong demand for HR workers, especially for recruiters and benefits administrators. IT workers and truck drivers are reported to be in exceptionally short supply.

Manufacturers report that selling prices are flat to declining modestly, while input prices remain generally stable. Service firms report stable selling prices but continued upward pressure on input prices as well as wages. Insofar as general business conditions go, service-sector firms continue to report modestly expanding activity, and most remain generally optimistic about the near-term outlook. In contrast, manufacturers report that business activity has weakened noticeably; contacts remain somewhat optimistic about the near-term outlook but less so than earlier in the year.

Financial Developments

Small to medium sized banks in the District report increased demand for commercial mortgages but little change in demand for other types of loans. Demand for refinancing is reported to have weakened for the first time this year. Bankers report that credit standards were unchanged

across all loan categories. Respondents report a decrease in spreads of loan rates over cost of funds across all loan categories, with the exception of consumer loans, for which bankers reported no change. The decrease in spreads was most prevalent for commercial mortgages. Finally, banks report an ongoing decrease in delinquency rates across all loan categories, except for consumer loans, where delinquency rates were reported to have leveled off.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during the current Beige Book period. In addition, most contacts continued to report modest growth in hiring, although staffing firms reported stronger results. On balance, only slight increases were reported in wages and prices, including home prices. Moderate growth of economic activity is anticipated over the next six months.

Across sectors, activity at staffing firms accelerated from a modest pace of growth during the prior period to strong growth during the current period. Lenders also reported moderate growth of loan volumes in contrast to more modest growth during the prior period. Nonauto retailers continued to report a moderate pace of sales growth. Sales at general services firms continued at a modest pace but appeared to have strengthened a bit and were nearing the more moderate growth that the broad sector typically reports. Commercial contractors, commercial leasing agents, and residential brokers continued to report modest growth. Auto dealers and tourism contacts also reported modest growth compared with very high levels of activity last year. Manufacturing continued to grow slightly. Homebuilders reported slight growth overall; flat for most, but stronger than before for a few.

Manufacturing. During the latest Beige Book period, more contacts indicated that general activity had declined; however, contacts reported little change in the slight growth of new orders and in shipments. Moreover, employment picked up a bit among manufacturers. Gains in activity appeared to be stronger among the makers of lumber and wood products, paper products, fabricated metal products, and instruments; activity appeared weaker among the makers of chemicals, primary metals, and electronics. Firms continued to cite concerns about the strong dollar; however, a contact at one firm noted that the firm was building inventories of commodity inputs while prices were low.

Despite the weakness in general activity suggested by contacts, their expectations of growth during the next six months have remained the same since the last Beige Book report, if not slightly better. Firms also indicated higher expectations for future capital expenditures; however, plans for future hiring sagged a bit. Still, nearly three times more firms anticipate hiring workers than firms that expect to decrease employment.

Retail. Retail sales continued at a moderate pace. An improving economy and continued good weather were cited as factors. Convenience store owners reported continued strong results for August and the first-half of September. Area malls reported moderate growth overall,

although apparel sales were somewhat flat. Contacts continued to express optimism for growth through 2016.

Auto dealers continued to report modest sales growth into the fall but from high levels. New Jersey dealers reported record-high levels with moderate sales growth over the prior year. Pennsylvania dealers reported slight sales growth; they had reported record highs last period. Early reports for September suggested that sales may be reaching a plateau; dealers expressed some concern that inventory levels have thinned (in part due to recalls), which may limit sales growth through year-end. Overall, auto dealers remained optimistic for continued growth through 2016.

Finance. Third District financial firms have reported moderate overall increases in total loan volumes since the previous Beige Book — an increase from the prior more modest rate. Commercial real estate activity, commercial and industrial lending, auto loans, and other consumer lending (excluding credit cards) were the segments with the strongest growth in volumes. Residential real estate lending volumes remained essentially flat for mortgages and refinancing loans. Banking contacts in most parts of the District described a steadily growing economy with little sign of inflation. Contacts remained optimistic for continued growth over the next six months.

Real Estate and Construction. Overall, Third District homebuilders have reported a slight improvement since the last Beige Book. A central Pennsylvania builder reported a pickup in traffic, a strong level of contract signings, and firm prices in August and September; sales were mixed between spec homes and contracts for delivery in 2016. Other builders in New Jersey and Pennsylvania noted ongoing softness. Builders did not cite any recent cost increases for materials; however, most continue to struggle with labor costs and securing timely delivery of subcontract work. Brokers in the major Third District housing markets continued to report modest growth of existing home sales. The relative lack of new home construction continues to buoy existing home sales. Year-over-year comparisons have begun to diminish, as 2014's sales began to strengthen near year-end. Inventory levels remain relatively unchanged at sufficiently high levels such that price increases are constrained and limited to select local markets.

Nonresidential real estate contacts reported little change to the modest pace of growth in construction and leasing activity seen earlier. Activity remains focused on urban, upscale mixed-use developments and on industrial warehouse space. One contact noted that large firms with good credit are emerging early (as much as two years in advance of lease expirations) to discuss their future office space needs — a tactic not seen yet during the current economic expansion, and an indicator of concerns that supply will become constrained and rents will rise. Contacts

remained optimistic for ongoing growth of both new construction and leasing activity throughout the District into 2016.

Services. Third District service-sector firms reported that overall activity continued to pick up after a summer swoon — still at a modest pace, but nearing the more moderate pace of growth that generally characterizes the broad service sector. Expectations for future growth remained strong, with more than four-fifths of the firms expecting growth. On balance, firms continued to add to payrolls; over the past period, firms reported more growth of part time, temporary, and contract positions than of full-time hires.

Staffing firms throughout the Third District reported significantly stronger growth for temporary positions and permanent placements and across all sectors. Several firms reported their strongest levels of activity since the past recession began, with growth driven by firm expansions as well as replacement hires.

Tourism activity continued at high levels for modest growth over the prior year. “Spectacular” weather, a later Labor Day weekend, and a papal visit contributed to increased visitors and spending in most of the Third District tourist destinations. The brief papal visit to Philadelphia shifted significant spending from Center City stores and restaurants to mountain and shore destinations, as the region’s population made way for tourists from around the nation and around the world.

Prices and Wages. General price levels have continued to rise slightly since the previous Beige Book period; however, reported increases appeared weaker than before. Roughly two-thirds of the contacts reported no significant change in the prices they pay for inputs and the prices received for their goods and services. Compared with last period, fewer nonmanufacturing contacts reported increases of prices paid, while relatively more reported decreases of prices received. In manufacturing, more contacts reported price decreases in both categories. On balance, manufacturers reported no change in prices paid and a decrease in prices received. Retail contacts reported little pressure to raise prices.

Generally, contacts continued to report little change in wage pressures. However, several staffing contacts indicated difficulties recruiting for low-skill positions. Low wages and compensation were cited as one factor. Another factor is the undesirability of the fluctuating schedule associated with fulfillment centers where employees are only needed for a few days at a time. In other sectors, contacts continued to report some difficulties filling highly technical positions.

FOURTH DISTRICT – CLEVELAND

On balance, the economy in the Fourth District expanded at a modest pace during the past six weeks. Factory output was stable. The housing market improved, with higher unit sales and prices. Nonresidential building contractors reported continued robust activity. Retailers and new-car dealerships saw higher sales on a year-over-year basis. The demand for business and consumer credit moved slowly higher. Exploration in the Marcellus and Utica Shales declined, whereas production remains at historic highs. Freight volume trended lower.

Net gains in employment were seen in the construction sector, banking, and freight hauling. Staffing firms reported a pickup in the number of job openings and placements, mainly in manufacturing and financial services. Wage pressure was little mentioned other than in construction. Overall, input and finished-goods prices were steady.

Manufacturing. Demand for manufactured products was little changed over the period. Key factors tempering output include a strong dollar, the slowdown in the energy and agriculture sectors, softness in developing markets, and growing uncertainty about the domestic economy. That said, suppliers to the motor vehicle, aerospace, and construction industries continue to see strong demand. On balance, capacity utilization rates have contracted slightly. The steel industry continues to struggle against an array of headwinds such as the strength of the dollar, weak international demand for steel, and low demand from the domestic energy sector. Year-to-date auto production at District assembly plants through August increased about 1 percent compared to the prior year's level. Despite the downside risks, a majority of our contacts are cautiously optimistic in their outlook for the remainder of 2015.

Capital budgets were stable over the period. Spending was largely allocated for maintenance projects, new equipment, and to a lesser extent product development. Steel makers cut budgets to control costs and preserve cash. Automakers reported using overtime and adding shifts to meet demand increases instead of expanding plant capacity. Typically, raw material prices were flat or lower, while finished goods prices were stable. Steel prices continue to fall despite occasional signs that the downward trend might be slowing. A food producer commented that his industry's prices remained stable, notwithstanding declines in agricultural commodities. Payrolls held steady on net. New hires were primarily production workers and engineers.

Real Estate and Construction. Year-to-date sales through August of new and existing single-family homes rose 9.5 percent compared to those of the same time period in 2014. The average sales price increased by more than 4 percent. Homebuilders cited two downside risks, which they believe could threaten a relatively healthy housing market in the near term: a rise in interest rates and a shortage of skilled labor. Despite these risks, our contacts remain cautiously optimistic and expect new-home sales to continue along recent seasonal trends. New-home contracts remain concentrated in the move-up price point categories. Builders reported that new-

home prices increased 5 percent on average over the year, citing larger building footprints and lower existing-home inventory as factors influencing the increase.

Nonresidential contractors reported continued robust activity, with revenues rising above year-ago levels. A majority of our contacts saw an increase in the number of inquiries and backlogs over the period. Demand has been strong across multiple segments, particularly in commercial building, government-sponsored projects, and multifamily housing (including senior living and affordable). General contractors remain optimistic about potential growth in the near term. Several reported that they were able to increase their margins with little pushback. Others believe that a small interest rate increase would have little, if any, impact on the construction industry. Banks are more proactive in working with developers, but they are reluctant to finance spec projects.

Capital spending by general contractors was mainly for capacity expansion and new equipment. Materials prices were stable during the past six weeks. For the remainder of 2015, builders anticipate that price increases will be limited to glass products. Construction payrolls expanded at a moderate pace over the period for field and office jobs. That said, the construction industry remains challenged by a labor shortage, including laborers, skilled craftsmen, and construction professionals. The end result is upward pressure on construction costs, including labor, and a reduction in the overall number of bids.

Consumer Spending. Retailers reported that revenues from late July through early September were higher compared to those of the same time period a year ago. Revenue increases were driven in part by back-to-school sales and lower energy prices, including for gasoline. A majority of our contacts saw rising profit margins during the past couple of months. Active wear, products related to outdoor activities, household durables, and electronics were in highest demand. Revenues during the fourth quarter are expected to be on par or increase in the low to mid-single digits compared to those of the same time period a year ago. Vendor and shelf prices were stable, other than increases for poultry products and some moderation in beef prices. Capital spending was primarily for brick-and-mortar projects. Hiring is limited to new-store openings.

Year-to-date sales of new motor vehicles through August showed a modest increase compared to those of a year ago. A strong consumer preference for SUVs and light trucks continued. One dealer association executive remarked that much of the driving force behind truck and SUV sales has been low fuel prices and affordable financing. Looking forward, dealers expect unit volumes will be on par with that of 2014. Year-to-date pre-owned vehicle sales are moderately higher compared to those of last year. Payrolls were fairly stable over the period, but dealers indicated that labor markets are tight, putting upward pressure on wages.

Banking. Bankers reported a modest increase in demand for business credit, particularly for CRE loans. Several commented that some customers are proceeding more cautiously when using commercial credit products because of concerns about the strong dollar and weakening international demand. Consumer lending expanded modestly over the period, with activity concentrated in auto lending and home equity products. Back-to-school transactions were smaller than expected. Interest rates for business and consumer credit held steady. Contacts reported a moderate expansion in their residential mortgage business, an expansion which was biased toward new-home purchases. Little change was reported in delinquencies (already at low levels) and loan-application standards. Core deposit balances remain strong. Capital investment by banks was primarily for technology enhancements, including security, and acquisitions. Payrolls increased on net. A decline in the number of retail banking jobs at branches was offset by new hires in higher-skilled positions such as IT, risk management, and regulatory compliance.

Energy. The number of drilling rigs operating in the Marcellus and Utica Shales trended lower over the period and is currently almost 50 percent below its peak level in the fourth quarter of last year. Natural gas production remains at elevated levels. Wellhead prices for oil and natural gas continue to decline. Downward adjustments to capital budgets reflecting reductions in exploration and production programs have been completed. An industry executive reported that while midstream investment activities are continuing, weaker companies are increasingly cautious given the recent volatility of energy prices. Hiring within the oil and gas industry remains modest and tightly controlled; most is for replacement.

Freight Transportation. Reports indicated that on net, freight volume contracted over the period. Declines were prevalent in metals and energy-related shipments. One contact said that investments made by railroads to accommodate the fracking industry might now lead to defaults. Another carrier noted that factory volumes remain lackluster. In contrast, volumes grew in the motor vehicle and construction industries. A pick-up in retail and agricultural products was also reported. The former is related to back-to-school sales and the upcoming holiday shopping season. A majority of our contacts see little change in volume along seasonal trends during the next few months. Prices for fuel and maintenance items were stable. Capital spending is mainly for replacing older equipment and maintenance projects. Some reports indicated that future capital expenditures may be curtailed because of the slowdown in the energy sector (coal as well as oil and gas). Payrolls increased slightly over the period. That said, two carriers reported that they are re-evaluating hiring plans because of the slowdown in demand.

FIFTH DISTRICT–RICHMOND

Overview. Information gathered since the last Beige Book indicates that Fifth District economic growth moderated in recent weeks. Manufacturing activity was tepid, with mild growth in shipments and the volume of new orders. Retail sales growth slowed and activity at non-retail services firms varied. Consumer loan demand leveled off, while demand for commercial loans rose modestly. Real estate activity, both residential and commercial, grew at a moderate pace. Agribusiness revenue growth was modest and recent severe flooding damaged some crops. The demand for labor increased moderately. According to our most recent surveys, manufacturing employment rose slightly. In contrast, hiring slowed at non-retail service firms and declined at retail establishments. Average wage growth softened in the service sector, while manufacturing wages rose moderately and the average workweek shortened. Price increases slowed.

Manufacturing. Manufacturing reports were mixed since the last report. On balance, producers noted mild growth in shipments and the volume of new orders. Furniture manufacturers reported increased sales. A door manufacturer in North Carolina reported that demand was steady, but not strong. A manufacturer in North Carolina reported differing conditions across business segments. He stated that the textile business was very weak, except in non-wovens and crafts. Another textile manufacturer and a chemical producer said their firms' exports had weakened significantly in recent weeks. A Virginia food manufacturer reported steady, but overall unchanged business conditions. According to our most recent survey, prices of raw materials and prices of finished goods rose, although at a slower pace than during the previous report.

Ports. Exports softened year-over-year in recent weeks and imports strengthened, which port authorities attributed to the strong dollar. Inbound loaded container traffic grew rapidly since our last report, and departing vessels filled unused export space by removing stored empty containers from the ports. Apparel and footwear, appliances, furniture, and resins were among the strongest containerized imports. European demand for exports of farm and construction equipment declined. Additionally, Chinese restrictions reduced some grain and soybean exports. Exports of forest products, chemicals, and used cars slowed since our last report, while exports and imports of new vehicles rose.

Retail. Retail sales grew at a slower pace since the previous Beige Book. Department store managers reported stronger sales while grocery sales flattened. Sales growth improved according to several car and truck dealerships, but slowed unexpectedly at a large dealership near Washington, D.C. Sellers of construction materials reported sales growth. Retail prices rose modestly since the last report, and one retailer noted that prices had fallen on some items in his spring order.

Services. Activity at non-retail services firms was mixed in recent weeks. An executive at a national trucking firm headquartered in the District reported that demand was a little softer because their customers' inventory levels were high, but he expects a seasonal pick-up to begin in the next few weeks. Architects, construction site preparation specialists, and other construction-related firms reported better revenue growth. Demand for healthcare services was unchanged, remaining at high levels according to hospital administrators. Healthcare organizations reported higher supplier prices for pharmacy items. Prices received by services providers rose more slowly since the previous report.

Tourism strengthened moderately in recent weeks. Hotels and restaurants in Virginia, West Virginia, and the Carolinas reported an increase in bookings since our last report. An executive on the outer banks of North Carolina reported that bookings were stronger year-over-year at hotels and rental properties, and that the outlook is for a busy Thanksgiving weekend. However, at a hotel located near a military base, an executive reported flat to slightly slower bookings as a result of fewer government stays. Room rates and rental rates were reported to be unchanged, except in Charleston and Greenville, South Carolina, where hotel rates rose.

Finance. Loan demand improved slightly, on balance, since our previous Beige Book. According to a lender in Virginia, residential mortgage demand slowed slightly over the last few weeks, but was on par with the same time period last year. A South Carolina banker characterized mortgage demand as slow but steady. However, commercial loan demand rose modestly. A lender in South Carolina reported an increase in demand for commercial and industrial real estate loans, particularly in the Charleston area. A North Carolina lender echoed that overall commercial real estate demand had risen, but added that increased competition from other banks made loan growth difficult to achieve. Several bankers in other areas also said that competition remained high, putting downward pressure on margins. Credit standards loosened slightly, according to contacts in Maryland, Virginia, and South Carolina. A Maryland lender added that the loosening also applied to land developers. Credit quality was reported as unchanged at strong levels in Virginia, North Carolina, and South Carolina. The Virginia banker noted that delinquency rates improved in the last few weeks. There were no reports of changes to interest rates since our last report.

Real Estate. Residential real estate activity grew at a moderate pace since the previous report. Average sale prices increased slowly, and new construction prices were reportedly rising faster than resale prices. Days on the market varied. Home inventories remained low. A source indicated that the residential real estate market in the Frederick County region of Maryland was generally strong, with steady buyer traffic and an increase since the previous report in transactions on homes below \$400,000. A Richmond real estate agent said that buyer traffic was very good, although inventory remains low for the market overall. A broker in northern Virginia reported increased demand in higher-end homes, along with higher closing prices. Single-family construction increased modestly since the previous report, with

multiple reports of a slight uptick in speculative building. A contact in the Hendersonville, North Carolina area stated that custom home building is booming, particularly for high-end homes. Multifamily leasing and construction activity remained strong.

Commercial real estate activity increased moderately since the previous report. Rental rates rose slightly, while vacancy rates varied by submarket and region. A Realtor in Richmond, Virginia reported strong demand across all segments. A broker in Raleigh, North Carolina stated that office space is doing very well, with new businesses coming into the area. Office space tightened in Charlotte and speculative office construction rose. Short-term leasing of warehouse space spiked in the area of Columbia, South Carolina following record flooding there, with much of the space going to emergency assistance organizations that were bringing in supplies. A Realtor in Columbia, South Carolina described strong commercial development, particularly apartment construction. Another South Carolina agent reported solid retail, industrial, and office markets. He said rental rates increased in the office sector and flattened in the industrial sector. A real estate contact in Washington, D.C. reported “an explosion” of new restaurants and grocery stores. In contrast, Baltimore activity was reported to be flat. Commercial construction increased in Richmond, Charlotte, and Columbia, South Carolina, and was unchanged in other locations, according to sources.

Agriculture and Natural Resources. Agribusiness reported modest revenue growth in recent weeks. Corn harvesting was completed. However, farmers reported that dry conditions earlier in the season had result in low, and in some cases zero, corn crop yields. Cotton and peanut harvesting is underway. In early October, extended rainfall in South Carolina resulted in severe flooding in some areas. One peanut farmer said he expects much of his crop to be affected by mold as result of the flooding, and a sod farmer reported that he will have to replant a recently sown crop. Cotton prices were reported as decreasing since the last report. Farmers’ input prices were unchanged.

Natural gas production was flat overall since our previous report. Appalachian coal production remained stable in in the north, but continued to decline in the south. Coal prices were unchanged.

Labor. Since the last Beige Book, the demand for labor has increased moderately, especially for customer service workers, skilled tradespeople, technicians, healthcare practitioners, government employees, engineers, IT professionals, truck drivers, and manufacturing workers. However a couple of executives at healthcare systems said they were only filling vacated positions and were managing for productivity improvement with existing staffing. A few staffing services agents noted more direct hiring. A contact in South Carolina said that temp to perm hiring picked up, and employees were being converted at a quicker pace. Difficulties finding qualified workers remained a challenge districtwide, and some employers were willing to hire workers who lacked the requisite skills, but had a strong work ethic and were capable of learning. A Virginia staffing agent described conditions as ‘a candidate’s market’ for qualified job-seekers. Reports on wages were varied. Wage pressures increased for workers in high

demand, such as drivers, housekeepers, food servers, manufacturers, and construction workers. According to our most recent surveys, employment increased mildly in manufacturing, slowed at non-retail service firms, and declined at retail establishments. Wage increases slowed in the service sector, while manufacturing wages rose moderately and the average workweek shortened.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts described economic conditions as improving at a modest pace from mid-August through September. The outlook among firms remains largely optimistic with the majority of contacts expecting growth to be sustained at or slightly above current levels for the remainder of the year.

Some retailers cited an improvement in sales growth, while others reported slower or no growth compared with a year ago. Automobile dealers continued to note strong sales. Hospitality contacts reported strong activity. Residential real estate contacts indicated that existing and new home sales and prices were slightly ahead of last year's levels. Commercial real estate contacts continued to note improving demand and construction activity was up from a year ago. Manufacturers indicated that overall activity slowed with new orders and production decreasing since the previous report. Banking contacts noted lending activity was mixed. Payrolls expanded slowly, and businesses continued to report challenges filling positions. Contacts indicated wages continued to grow at a slow, steady pace and input cost pressures were almost nonexistent.

Consumer Spending and Tourism. District retailers reported mixed activity from mid-August through September. Most contacts reported healthier sales growth compared with a year ago while others reported slow or no growth. Industry contacts expect activity to improve from current levels for the upcoming holiday season. Auto sales continued to experience robust sales activity.

Reports on leisure and business travel remained positive. Tourism contacts in Georgia, Florida, and Louisiana reported a solid summer season with occupancy numbers and attendance at major conventions up from a year ago. Year-to-date Mississippi casino gaming revenues increased compared with the same period last year. Industry contacts expect business and leisure travel to exceed forecasts for the remainder of 2015 and many already report strong advanced bookings in the hotel and conference segments for the first quarter of 2016.

Real Estate and Construction. District contacts indicated that residential real estate and construction activity continued to improve since the last report. The majority of homebuilders indicated that construction activity was up from the year-ago level and had met or exceeded their plan for the period. Most builders and brokers reported home sales were flat to up slightly and buyer traffic increased relative to one-year earlier. Three-fourths of builders noted that inventory

levels were on par with last year; broker reports on inventory levels were mixed. Most real estate contacts indicated that they were experiencing modest home price appreciation in their markets. Business contacts' expectations for home sales and construction activity over the next three months remain positive, with the majority indicating that they expect activity to pick up slightly.

Commercial real estate brokers indicated improvements in demand that resulted in increased absorption and rent growth across property types, but they continued to caution that the rate of improvement varied by metropolitan area, submarket, and property type. Most commercial contractors indicated that nonresidential construction activity was up from one year ago, with many also reporting a backlog greater than the previous year. Reports on apartment construction suggested that activity remained robust. The outlook among District commercial real estate contacts remains positive, with most expecting the pace of construction activity to increase slightly over the next quarter.

Manufacturing and Transportation. District manufacturers indicated that business activity declined since the previous report. Contacts noted a decrease in new orders and production, while employment levels at District manufacturing firms were relatively unchanged. Finished inventory levels were reported to be slightly lower than the previous report. However, reports indicated that commodity input costs continued to decline. Optimism for future production fell, with less than one-quarter of businesses expecting higher production over the next three to six months.

Transportation contacts cited mixed levels of activity from mid-August through September. Trucking companies reported healthy demand, which was mostly attributed to growth in e-commerce; meanwhile, flatbed volume, primarily steel shipments, showed some slowing in growth. District rail contacts indicated that total carload volume declined slightly due to year-over-year, double-digit decreases in shipments of coal, iron and steel scrap, and metals. District port contacts reported strong demand across all types of cargo.

Banking and Finance. Reports indicated that credit remained readily available for qualified borrowers. Competition for new commercial loan customers remained tight and some financial institutions were reported to be extending term amounts and maturities to attract customers. Small businesses indicated continued difficulty in obtaining financing and noted funding some expansion with cash. As mortgage refinancing activity slowed, purchase

transactions made up a greater share of mortgage loans. Consumer lending activity was strong and bad debt on the consumer side was significantly reduced.

Employment and Prices. Many District companies continued to report adding to headcounts, albeit modestly. Hiring challenges persisted and intensified in some areas. Contacts also reported that labor market tightness was prompting some firms to implement training programs and referral or signing bonuses to address labor shortages. Contacts indicated that hiring and retention challenges were most prevalent among higher skilled occupations though firms also noted greater competition for lower skilled labor.

Businesses continued to report negligible non-labor input cost pressures, although lower commodity prices and lower costs for imported goods aided in improving margins, and firms were generally able to hold prices steady. Wage growth remained in the 2 to 3 percent range for most job categories, with the exception of specialized positions in high demand, which continued to receive outsized increases. According to the Atlanta Fed's survey of business inflation expectations, year-over-year unit costs were up 1.3 percent in August, the lowest reading in two years. Survey respondents also indicated that they expect unit costs to rise 1.7 percent over the next 12 months.

Natural Resources and Agriculture. Continued weak global demand and an oversupply of oil drove exploration and production companies to further reduce capital investment and business activities that do not improve cash-flow. That said, contacts reported that liquid natural gas projects already in progress will continue on schedule. Refineries have been running near capacity with feedstock readily available at low costs. Deepwater drilling activity showed signs of slowing with a drop in rig counts. Utility contacts reported increased energy usage in both the residential and commercial sectors.

Areas affected by drought conditions expanded in the District since the last report. Most drought-affected areas were categorized as abnormally dry to severe, and parts of Mississippi experienced extreme drought conditions. Mississippi's rice harvest was well underway although slightly behind its five-year average, while in Louisiana, the harvest was almost completed and on par with its five-year average. Both Louisiana and Mississippi's soybean harvests were well underway and ahead of its five-year average. Cotton and peanut harvesting were in the early stages throughout the District.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District slowed to a more modest pace in late August and September, but most contacts expected growth to pick up somewhat over the next 6 to 12 months. Gains in business spending were moderate, but growth in consumer spending, manufacturing production, and construction and real estate was slower. Credit conditions were little changed. There was also little change in raw materials and retail prices, and limited wage and non-wage cost pressures. Corn and soybean crop conditions improved some as the harvest began, while the profitability of crop operations ranged from substantial losses to break-even.

Consumer spending. Growth in consumer spending slowed to a more modest pace over the reporting period. Retail sales were little changed overall, with contacts reporting higher sales of gift items and jewelry, flat food and beverage sales, and lower apparel, furniture, and appliance sales. Contacts in the tourism industry in Michigan reported strong summer traffic, with higher overall spending than last year. Both new and used light vehicle sales continued to be strong. Vehicle transaction prices continued to rise, though at a slower pace, as manufacturers increased incentives. Relatively low gasoline prices continued to cause a shift in sales toward light trucks.

Business spending. Growth in business spending remained moderate in late August and September. Most retailers indicated that inventories were at comfortable levels, while many manufacturers reported an undesirable increase in their inventory-to-sales ratio. Steel service center inventories remained especially elevated. Strong sales kept motor vehicle dealer inventories low, particularly for light trucks. The pace of current capital spending remained moderate, but many contacts reported a slowdown in planned capital outlays. Expenditures were primarily focused on replacing industrial and IT equipment, though spending on transportation equipment picked up. Spending for expansion was relatively limited, and a number of manufacturing contacts reported delaying major equipment purchases because they expect weaker demand in the future. The pace of hiring also remained moderate, but hiring plans slowed some. Labor demand continued to be strongest for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. One contact indicated that the construction of a new facility took longer than expected and was over budget because of a shortage of skilled trade workers. A staffing firm again reported flat revenue growth.

Construction and real estate. Construction and real estate activity increased modestly, on balance, over the reporting period. Demand for residential construction was little changed. One contact noted a decrease in traffic and new contracts in suburban markets, but said that the value of homes has continued to increase for prime locations in the Chicagoland area. Residential rents increased modestly, while home sales, home prices, and home affordability were little changed. Most nonresidential construction contacts also reported little change in demand, though one contact reported moderate increases for retail and office spaces. Commercial real estate activity continued to increase moderately. Growth was widely distributed across the retail, industrial, and office segments, and contacts noted increasing demand for both for-sale and for-lease properties. Commercial rents picked up, while commercial vacancy rates and availability of sublease space decreased slightly. Contacts, however, noted that lenders appeared cautious, possibly in response to the increased volatility in the financial markets.

Manufacturing. Manufacturing production growth slowed to a more modest pace in late August and September. While the auto, heavy-duty truck, and aerospace industries continued to experience solid gains, most other industries saw limited growth. Demand for steel remained weak and capacity utilization fell to one of its lowest points for the year. Steel imports were down some, but still high. On balance, specialty metals manufacturers reported weaker demand: The only indications of strength came from suppliers of the auto and aerospace industries, while those primarily supplying the oil and gas industry reported especially weak orders. In addition, a number of specialty metals manufacturers indicated that their backlogs had declined unexpectedly over the reporting period. Weak demand for agriculture and mining machinery continued to be a drag on the heavy machinery industry, leading to layoffs at some producers. Manufacturers of construction supplies again reported slow but steady growth.

Banking/finance. Credit conditions were little changed over the reporting period. Financial market volatility declined slightly, but remains high relative to recent history. Small business loan demand increased, primarily in the manufacturing and transportation sectors. Business loan quality continued to improve even though contacts noted that difficulty finding high-quality lending opportunities was resulting in some looser credit standards. Consumer credit demand and loan quality increased slightly over the reporting period. One contact reported expanding credit lines to existing customers and lower quality borrowers. Mortgage loan demand increased marginally and origination quality remained strong. Auto loan demand remained strong, and contacts again

highlighted a trend of extending loan terms in response to already low spreads and highly competitive pricing.

Prices/costs. Cost pressures remained subdued in late August and September. Energy and steel prices declined, while the prices of other primary metals remained low. Most retail prices and prices charged by upstream producers were little changed. Those firms reporting price increases were more likely to cite stronger demand or increased pricing power than higher costs. Wage pressures remained mild overall but were generally stronger for higher-skilled occupations relative to lower-skilled occupations. There were a few reports from manufacturers of 5 to 10 percent across-the-board wage increases, but most contacts said their wage increases were to compensate individuals who demonstrated high productivity. Growth in non-wage costs remained subdued.

Agriculture. The condition of the District's corn and soybean crops improved some over the reporting period. Relative to last year, crop conditions were better in Iowa and Wisconsin, mixed in Michigan, and worse in Illinois and Indiana. Harvesting was somewhat behind the normal pace, especially for corn, which was maturing late. Overall, yield reports suggest that the corn harvest won't reach last year's record level, while the soybean harvest may surpass last year's record. Corn prices moved up and were higher than a year ago, while soybean prices moved down and were lower than a year ago. Because of a wide range in yields and differing rental arrangements, the profitability of crop operations ranged from substantial losses to just breaking-even. Wheat prices recovered some, as did milk prices. Hog and cattle prices were lower. Poultry operations continued to rebuild from the avian influenza outbreak, and egg prices eased as production recovered. Producers, however, were concerned about a repeat outbreak as the fall migration of wild birds began.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Economic activity in the Eighth District increased at a modest pace since our previous report. Despite steady employment growth, contacts across many industries reported difficulties finding workers. Retailers and auto dealers continued to report higher sales. Banks continued to report strong growth in loans, although loan growth has slowed from our previous report. Real estate conditions continued to improve at a steady pace as home sales and permits increased in most areas. Poor crop conditions and falling prices are putting downward pressure on farm incomes.

Employment, Wages, and Prices

District employment grew at a modest pace since our previous report. Firms that provide warehousing and distribution services, information technology services, and health care and social assistance services reported plans to hire new employees. Contacts across many industries reported increased hiring difficulty. Reports from the manufacturing sector were mixed. Manufacturing contacts in rural areas throughout the District continue to report difficulty finding and retaining qualified employees. In particular, contacts in the rapidly growing furniture manufacturing sector in northern Mississippi have struggled to find enough employees with cutting and sewing skills. Contacts in trucking and other modes of transportation continue to report a shortage of qualified operators and technicians.

Contacts reported that lower fuel prices have led to lower fuel surcharges, and prices for agriculture-related consumer goods are falling in response to the crop price declines. Wages in the District grew at a modest pace, with contacts reporting wage and salary adjustments around 2 percent. One contact noted workers are changing jobs as a means of obtaining higher pay.

Consumer Spending

Anecdotal evidence from local contacts indicates that the retail sector experienced modest growth since the previous report. The majority of contacts indicated that sales met or exceeded expectations. However, some retailers noted a slight slowdown in activity during the final weeks of summer. Retail

activity continues to pick up in southern Indiana, as firms have announced plans of new retail development and the expansion of existing retail centers.

Reports from auto dealers were mixed. Multiple contacts reported increased foot traffic and sales in recent weeks compared with the previous quarter. Several others noted that sales, services, and repairs have recently decreased but expect activity to pick up for the remainder of the year. Contacts continued to indicate a shift in demand toward trucks and SUVs and away from cars as the result of low gas prices.

Manufacturing and Other Business Activity

Manufacturing activity has improved at a modest pace since our last report. Several companies in the District, including firms that manufacture appliances, transportation equipment, primary metals, and plastics and rubber products, reported increased capital expenditures and facility expansion plans.

Reports in the District's service sector have been generally positive since the previous report. Several universities, hospitals, and senior care facilities reported plans to build new facilities or upgrade existing ones. Transportation industry contacts reported a mixed outlook. Several contacts have noted a sharp slowdown in shipments of materials related to the energy sector but are continuing capital expenditures as previously planned.

Real Estate and Construction

Residential real estate activity continued to expand, but at a slower pace than in the previous report. That said, contacts expect a steady improvement through year-end. Compared with the same period in 2014, August home sales increased on a year-over-year basis: 2 percent in Little Rock, 1 percent in Louisville, 7 percent in Memphis, and 2 percent in St. Louis. Residential construction increased in the majority of the District's metro areas on a year-over-year basis. Compared with the same period in 2014, August single-family building permits increased 6 percent in Little Rock, 8 percent in Memphis, and 20 percent in St. Louis and decreased 2 percent in Louisville. Contacts expect further increases in home construction to catch up with the current high-demand and low-inventory situation.

Commercial real estate market conditions were positive throughout the District. Contacts reported high demand in the apartment, office, and industrial real estate markets. Many retailers are shifting toward downsizing but are willing to pay higher rents for smaller locations. Commercial construction activity continued to be positive throughout most sectors. Construction activity was particularly high in the healthcare sector, with expansions of medical office campuses.

Banking and Finance

Overall banking conditions remain strong in the District. Loan growth slowed somewhat relative to prior quarters but remains in positive territory and above the national growth rate. Total loans outstanding at a sample of about 80 small and mid-sized District banks increased 10 percent in September from the same time last year. Real estate lending increased 9 percent over the reference period. Commercial and industrial loans increased 10 percent over the period, and loans to individuals increased 7 percent. Lending growth in each of these categories was slower in September than in the earlier this year, but growth rates remain above historical levels.

Agriculture and Natural Resources

Contacts expect District row crop yields to be about 10 percent below 2014 levels as the result of extensive rainfall. Many contacts believe that crops with earlier planting seasons, such as corn, will experience a yield decline of up to 30 percent in the most rain-ridden areas. Contacts noted that with the recent decline in crop prices and stickiness of some input prices, production levels will not be high enough to prevent a decline in net farm income. While most livestock-related prices are also trending downward, the recent bird flu outbreak has had a mixed impact on poultry prices. District coal production has continued to fall, with August production 4.7 percent below the August 2014 level. Year-to-date coal production is currently 5.1 percent below last year's level.

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, residential real estate, and professional services. Manufacturing was flat, and residential construction, energy, and mining were down. Meanwhile, agricultural production was solid, but many crop prices were down. Labor markets tightened further in several areas, while some increased wage pressures were noted. Price pressures remained subdued.

Consumer Spending and Tourism

Consumer spending grew modestly. A furniture store owner in northwestern Minnesota stated that recent sales were solid. An auto dealer in northeastern North Dakota saw a 4 percent drop in new car and truck sales over the past few months, but used car sales were up 17 percent. Retailers in northwestern Montana reported a 10 percent to 15 percent drop in spending by visiting Canadians owing to recent appreciation in the U.S. dollar.

Overall tourism activity grew. In northern Minnesota, a tourism industry survey reported a 51 percent increase in lodge and hotel occupancy compared with a year earlier. Taxable tourism sales were up 75 percent from this time last year in western South Dakota. In contrast, resort owners in northern Montana reported a drop in Canadian guests by as much as 30 percent, and vacancy rates for hotels are down across many communities in North Dakota, according to a lodging association survey.

Construction and Real Estate

Commercial construction continued to expand moderately. An official reported that the value of commercial building permits in Minneapolis was at strong levels. The value of August commercial permits increased compared with a year earlier in Sioux Falls, S.D., but decreased in Billings, Mont. Residential construction decreased somewhat. In the Minneapolis-St. Paul area, the value of residential building permits decreased 13 percent in September compared with a year earlier. In Billings, the value of permits for single-family homes was down 8 percent in August from a year earlier, while the value of permits for new residential construction decreased in Sioux Falls.

Commercial real estate activity grew moderately. A commercial real estate association in Minnesota reported continued positive net absorption of office and industrial space in the Minneapolis-St. Paul area. A commercial real estate services firm reported that asking prices for industrial and retail property in Montana increased moderately during the past few months, while

office property prices dropped somewhat. On balance, residential real estate activity increased moderately. In Minnesota, August home sales increased 5 percent and the median sales price increased 3 percent compared with a year ago. A report by a real estate agent in southwestern Montana noted that recent home sales activity was solid, and price levels were somewhat steady. In western Wisconsin, home sales decreased 6 percent in August from a year earlier, while the median sales price increased 5 percent. Apartment rental prices decreased substantially over the past few months in the energy-producing areas of western North Dakota.

Services

Professional services grew modestly. A staffing services firm in central Wisconsin reported strong demand for services, but personnel placements were constrained by tight labor market conditions. An insurance executive in North Dakota indicated that business has been trending downward over the year, but business this past quarter was “just slightly ahead.”

Manufacturing

Manufacturing activity was flat overall since the previous report. An index of manufacturing activity released by Creighton University indicated slight growth in September in Minnesota and South Dakota; the index for North Dakota remained at a level indicating contraction in activity. A producer of video display equipment reported weaker sales for its most recent quarter compared with a year earlier. Contacts in the electronics industry reported losing business to overseas competitors due to recent changes in exchange rates. Demand for agricultural equipment remained weak. In contrast, a landscaping equipment producer saw a larger-than-expected increase in sales in its most recent quarter, and a maker of recreational vehicles is expanding its headquarters and planning for 50 percent growth over the next five years.

Energy and Mining

Activity in the energy sector was down slightly from the last report, while the slowdown in mining continued. The number of active drilling rigs in the District fell to a low point for the year in late September. The volume of crude shipped by rail has fallen this year, as pipeline capacity has increased, and production growth has tapered off, according to regulators. In contrast, an electric utility began work on a \$300 million wind farm. An iron ore facility in Minnesota announced plans to idle, the most recent in a succession of such announcements. Even as iron ore production has fallen, inventories at docks remain much higher than usual for this time of year, due to weaker demand from steel plants, according to industry sources. Contacts in

the silica sand mining business noted that demand from oil and gas fracking activity has fallen; most of the burden has been borne by newer and small sand mining operations.

Agriculture

While growing conditions were good, the income outlook for agricultural producers remained weak. District crops were in mostly good or excellent condition, with wheat and small grains harvests progressing well ahead of average; record corn and soybean yields were expected in some areas. A banker noted that agriculture is having a very good production year, which will help make up for low prices, but breakeven will be a stretch for many. Prices received by farmers fell in August compared with a year earlier for soybeans, wheat, hay, milk, chickens, hogs, and cattle; prices increased for corn, eggs, calves, and turkeys. In other news, an agribusiness firm announced a \$20 million seed research facility in Minnesota and a ranch supply company in western South Dakota reported that sales were up 30 percent from last year.

Employment, Wages, and Prices

Labor markets tightened further in several areas. A state official in Montana noted that labor markets were continuing to tighten, particularly in eastern Montana and some urban areas. Manufacturers in central Minnesota noted difficulty filling open positions, while contacts in western Wisconsin noted many businesses were challenged to find workers. In Minnesota, a health insurance provider announced plans to hire 1,800 new workers in a variety of positions, and a health care technology company plans to increase its workforce by almost 170 employees. While the news on employment was positive on balance, there were some reports of cuts. For instance, job cuts and sharp reductions in overtime hours were reported in the energy-producing regions of North Dakota and Montana. Meanwhile, a call center in South Dakota was scheduled to close, affecting about 250 workers, and a timber mill in Montana laid off 90 employees.

Some increased wage pressures were noted. Contacts in a number of areas noted that wage rates were picking up for positions in manufacturing and health care. An airline announced an increase in base pay of over 10 percent for flight attendants and ground workers in Minnesota, according to a news report.

Price pressures remained subdued. Minnesota gasoline prices in late September decreased about 40 cents per gallon from mid-August and about 90 cents per gallon from a year earlier. Few price pressures were reported for manufacturing and construction material inputs. The pace

of decline in some metals prices eased as copper and aluminum prices increased slightly from relatively low levels since the last report.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District eased slightly since the prior Beige Book, although with mixed conditions across sectors. Consumer spending fell slightly overall, despite some pickup in auto sales. District manufacturing activity continued to decline, and transportation contacts noted a marked decrease in sales. Energy firms reported moderate declines in activity, and farm income remained subdued due to weak prices. On the positive side, District real estate activity increased modestly for both residential and commercial activity. Professional, high-tech, and wholesale trade firms reported moderate increases in sales, and bankers reported steady loan demand, deposit levels, and overall loan quality. Prices grew more slowly than in recent surveys, and eased in some sectors. Although wage pressures moderated somewhat, contacts in a few industries continued to report labor shortages for skilled and entry-level positions.

Consumer Spending. Consumer spending activity fell slightly, but activity remained higher than a year ago, with mixed expectations heading forward. Retail sales slowed further in August and early September but were higher than year-ago levels. Several retailers noted a drop in sales for luxury and home improvement products, although sales of lower-priced items were steady. Expectations for future sales slowed modestly but remained positive, and inventory levels were expected to be unchanged. Auto sales increased modestly and were higher than a year ago, although dealer contacts expected a slowdown in sales growth for the months ahead. Auto inventories increased from the previous month and were expected to remain stable. Restaurant sales declined sharply and were moderately below year-ago levels, with contacts expecting further declines in the months ahead. District tourism activity contracted further in August and early September, and was flat versus a year ago. Tourism contacts expected modest declines in activity for the upcoming months.

Manufacturing and Other Business Activity. Manufacturing activity declined at a similar pace as in previous months, while other business activity was mixed but generally more favorable. Both durable and nondurable goods production continued to decline, although some nondurable production such as plastics, chemicals, and food improved slightly. Durable goods production remained weak, particularly for metals and machinery products. Producers continued to cite weak oil and gas

activity along with a strong dollar as key reasons for the sluggish activity. Manufacturers' capital spending plans remained weak, and producers' expectations for future activity dropped to their lowest levels since 2009. Professional, high-tech and wholesale trade firms reported moderate increases in activity, with sales well above year-ago levels and solid expectations for future months. Transportation contacts noted a marked decrease in sales from the previous survey, although many firms expected activity to rise steadily in the months ahead. Most service businesses reported fairly solid capital spending plans.

Real Estate and Construction. District real estate activity continued to increase at a modest pace in late August and September, and expectations remained positive for the months ahead. Residential real estate sales and home prices, led by strong gains in Colorado, rose moderately compared to the previous survey period, and inventories declined slightly. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Expectations for future residential sales were lower than the previous survey period but still slightly positive with many contacts citing seasonal factors as a reason for expected slower growth. Residential construction and related business activity slowed slightly since the last survey as housing starts and traffic of potential buyers declined but overall activity remained above year-ago levels. Commercial activity continued to expand at a modest pace in late August and September, and contacts expected this pace of growth to continue over the coming months.

Banking. Bankers reported steady overall loan demand, deposit levels and loan quality, compared to the results of the last survey. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate and consumer installment loans. Demand for agricultural loans declined slightly. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, a majority of respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories. Most respondents reported stable deposit levels.

Energy. Energy activity contracted moderately since the last survey period, and expectations for future activity fell sharply as the outlook for oil prices became more pessimistic. The number of active oil and gas drilling rigs fell marginally since the last survey period, particularly in Colorado. Sustained low oil prices tightened financing for several local producers,

with many commenting that they will adjust activity to operate within cash flows or will put drilling on hold. Furthermore, most contacts expected future capital spending to decrease, with several expecting a large drop. Employment in the sector also declined and several respondents expected more layoffs in the coming months as they focus on cost and debt reduction. Natural gas prices were down slightly since the last survey period as cooler temperatures across the region eased demand for cooling.

Agriculture. Farm income expectations remained subdued as low crop prices persisted and livestock prices declined since the last survey period. With corn and soybean crops in good to excellent condition throughout most of the District, expectations of a large harvest kept prices near last year's level and slightly less than in the summer growing months. In addition to strong production expectations, sluggish export demand for agricultural products put further downward pressure on crop and livestock prices, as both fed and feeder cattle prices decreased significantly in September. An exception to the trend of weak prices is the cow-calf sector, where profits have remained strong. Weaker farm income and reduced cash flow also continued to drive demand for further short-term financing in the farm sector.

Wages and Prices. Both input and finished goods prices grew more slowly than in recent surveys and eased in some sectors. Wage pressures were also mostly lower even as contacts once again noted labor shortages in key skilled positions. Retail input and selling prices rose at a slightly slower pace as did construction final sales prices. Restaurant menu prices declined, and manufacturers' raw materials and finished goods prices continued to fall. Plant managers expected raw materials prices to increase, while their future selling prices were anticipated to decline. Transportation prices were steady, although contacts expected some input price increases. Retail wages rose at a slightly higher rate, while restaurants and transportation wages increased at a slower pace. Many respondents continued to report shortages in entry level positions, service workers, truck drivers, skilled technicians, and in information technology.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks. Manufacturing demand increased, and retail and auto sales grew. Demand for nonfinancial services held steady or improved, except for some transportation services. Real estate activity remained solid overall, and loan demand rose steadily. Demand for oil field services was still depressed, and lower oil prices dampened outlooks. Price pressures remained subdued and employment held steady or increased.

Prices Most input costs and selling prices were generally stable over the reporting period. Transportation services firms and airlines continued to note lower fuel prices, and primary metals manufacturers said their raw materials prices were low, with one contact noting further softening. Selling prices were mostly unchanged, although a food manufacturer said prices were slightly higher and expects an increase going forward to help recoup past commodity cost increases.

Labor Market Employment in most industries held steady or increased. Contacts reported increased hiring in staffing services, professional and technical services, finance, transportation services, and leisure and hospitality. Several manufacturers also added to headcounts, including metals, machinery, and transportation equipment producers. Most retail contacts expect to hire roughly the same number of temporary workers for the holiday season as they did last year. Employment was flat to down in high-tech manufacturing, and the second round of layoffs in the energy sector was still underway.

Wages were mostly flat to up from six weeks ago. Numerous contacts continued to note difficulty finding or retaining workers, skilled and unskilled alike. Staffing services firms said the cost of recruiting was on the rise because of the tight labor market.

Manufacturing Most manufacturers reported increased demand over the last six weeks. In construction-related manufacturing, cement producers were working through backlogs and a brick producer noted continued strength in the Dallas-Fort Worth area but a decline in Houston due to low oil prices. Demand for primary and fabricated metals, machinery, and food products increased, according to contacts. There were a couple mentions of depressed demand in energy-related manufacturing work. An auto manufacturer said demand was up, partly due to the low price of fuel, and that the market has shifted from cars to trucks, SUVs, and minivans. The contact noted inventories were low, as they were outselling what they could produce.

Demand for high-tech manufacturing picked up slightly, with some of the weakness in the early part of the third quarter subsiding and demand for memory products picking up. A contact noted that stagnant growth in personal computers and expected slower growth in smartphone demand will put downward pressure on manufacturers. Another high-tech contact cut capital expenditure plans for next

year in response to sluggish growth. Overall, these contacts expect mild growth for the rest of this year and into 2016, and one mentioned that global economic volatility and weakness in China pose a risk to growth next year.

Refinery utilization rates held strong, and margins remained healthy thanks to persistently low domestic energy prices. Exports of petroleum products have been hampered slightly by a strong dollar, but the cheaper domestic oil prices remained the most significant factor affecting exports. Integrated petrochemicals producers were doing well, although many chemicals products were hampered by the strong dollar and lower oil prices. Expectations for the rest of 2015 remained positive.

Retail Sales Retail sales grew over the reporting period. More than half of contacts said sales growth was either at the same pace or slightly faster than in the prior reporting period. Contacts noted that the continued strength of the dollar remained a headwind to sales, as tourism spending is down and Mexican nationals were spending less in border cities. Overall, the Texas retail sector was reported as performing in line with the national average.

Automobile sales growth resumed over the past six weeks and was characterized by contacts as average. Sales were up strongly from a year ago. Inventories were mostly in good shape, although there were supply issues for some brands. Outlooks were mostly positive, with retailers expecting flat or stronger growth in the fourth quarter and auto dealers anticipating the normal seasonal strength at yearend.

Nonfinancial Services Most nonfinancial services firms reported demand was flat or up from six weeks ago. Demand reports among staffing services ranged from poor to very strong. One contact mentioned that logistics demand was booming in the Dallas-Fort Worth area, and another mentioned that healthcare staffing was up. Demand for professional and technical services increased moderately over the reporting period. Accounting services demand remained robust, although one contact noted a slower pipeline of construction-related work. There was little evidence of effects from lower oil prices on professional services, and contacts thought the potential for bankruptcies and mergers might even increase demand in the medium term. Contacts in the restaurant and food services industry said demand grew at a moderate pace. One restaurant contact noted that sales in oil and gas areas were still growing softly but sales in larger metros were continuing to outperform expectations.

Rail cargo volumes were down again, with continued steep declines in shipments of petroleum products and nonmetallic metals (which includes sand used in drilling). Motor vehicle shipments remained a bright spot, with volumes up markedly. Air cargo, courier, and container volumes decreased over the reporting period. A contact noted steel shipments were down notably, largely due to projects in the oil and gas industry being halted. In contrast, trucking volumes rose, and one contact added capacity. Airlines reported no change in demand over the past six weeks. The domestic market continued to be the

strongest, and demand for both leisure and corporate travel was equally strong. Overall, transportation services contacts stated that their outlooks were not as strong as they were a year ago.

Construction and Real Estate Single-family housing activity generally remained strong. Overall, both new and existing-home sales increased, and demand was strongest for low- to mid-priced homes. Contacts in Houston noted slower buyer traffic and weakness in sales of higher-priced new homes. Contacts said builders were still working through their backlogs, and new-home construction activity continued to be restrained by labor shortages. Conditions in the multifamily market mostly remained solid, but one contact expects weakness in Houston's high-end apartment market in the medium term as numerous new units are delivered. Outlooks for the housing sector were generally positive through year end.

Demand for office space remained solid in Dallas-Fort Worth, while contacts in Houston noted rent concessions and further increases in sublease space, particularly for class A properties. Industrial leasing and construction remained active, characterized by single-digit vacancy rates in both metro areas. Financing for construction of new office and multifamily space in Houston remained extremely limited.

Financial Services Loan demand grew at a steady pace over the past six weeks. Contacts noted growth in mortgage lending and stronger demand for commercial real estate loans, particularly in Austin. Consumer lending continued to grow as demand for auto lending and credit cards increased at a robust pace. Loan standards were largely unchanged, although contacts noted the potential for tightening in the near-term in response to weakness in the energy sector. Loan quality decreased marginally as some energy-related services firms have either shut down or decreased their lines of credit. One contact also noted increasing loan loss provisions due to weakness in the energy sector. Interest rates on loans remained historically low. Bank deposits are at high levels and grew slightly, although renewals of longer-term deposit products such as certificates of deposit continued to decrease. Contacts cited recent monetary policy actions, financial market turbulence, and low oil prices as factors that have increased uncertainty.

Energy Demand for oilfield services remained depressed as drilling activity declined. Firms were considering further cuts to 2016 capital expenditure plans, but not as large as the cuts made earlier in the year. At current pricing and demand, the financial positions of many firms continue to deteriorate, particularly smaller firms. Outlooks remain negative, with contacts concerned that the fourth quarter will bring a substantial increase in defaults, bankruptcies, mergers, and acquisitions.

Agriculture Drought conditions worsened in East Texas and northern Louisiana over the reporting period. Texas wheat production was average this year, and wheat prices continued to slide, largely because of weak global demand. While the El Nino weather pattern that is expected this winter would be good for 2016 wheat crop production, prices are below breakeven for producers. The latest

estimates for Texas cotton production came in lower than expected due to weak yields. Cotton export sales were weak, with demand from China—a major importer of Texas cotton—down year over year. Cattle prices dropped sharply over the last six weeks, causing Texas feedlots to lose money.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District grew at a moderate pace during the reporting period of late August through early October. Overall price inflation appeared to firm slightly, and upward wage pressures increased further. Retail sales grew moderately, while demand for business and consumer services picked up further. Manufacturing output was largely unchanged overall. Agricultural activity edged up. Conditions in residential and commercial real estate markets expanded further. Lending activity ticked up.

Prices and Wages

Overall price inflation appeared to pick up slightly on balance. Prices for health-care services edged up, while pharmaceutical prices continued their rapid ascent. Housing costs have been rising significantly in some urban markets due to growing demand combined with tight availability. Contacts in the restaurant industry reported price increases, particularly for catering services. By contrast, retail grocery prices remained flat, with vigorous industry competition preventing retailers from passing on cost increases to final prices. Lower natural gas prices reduced electricity costs. Ongoing price declines were noted for technology products and services and industrial commodities such as steel, due in part to low import prices arising from past dollar appreciation. High yields held down prices for selected agricultural products.

Upward wage pressures grew moderately across the District. The impact of higher minimum wages implemented over the past year began to filter through to the retail sales sector and increased wages for lower-skilled workers in some areas. Wage pressures grew in the health-care sector, particularly for specialized positions such as nurses and software developers. Shortages of skilled labor contributed to further wage increases in both the technology and construction sectors. Wages in the financial sector remained flat. Some contacts reported that, while wage pressures had not yet materialized in many industries, the number of job applicants for new positions fell, and difficulties finding workers with appropriate skills is a primary concern.

Retail Trade and Services

Retail sales grew at a moderate pace over the reporting period. Contacts reported that sales were bolstered in part by rising tourist activity in some areas. Sales of mobile computing devices were strong,

spurred by rising consumer demand for wearable computing items. Sales in the grocery sector remained flat, and low-cost retailers gained market share as consumers remained price conscious. Apparel sales fell slightly.

Demand for business and consumer services expanded further. Activity in the technology services sector expanded, particularly for cloud-based remote services. Infrastructure investment in data centers continued to build in anticipation of future adoption of public cloud services. Activity in the hospitality sector expanded further, and hotel occupancy rates remained high. Demand for health-care services was largely steady despite rising rates of insurance coverage in some parts of the District.

Manufacturing

Manufacturing activity was mixed but appeared flat on balance. Domestic output in the steel industry remained weak, as earlier dollar appreciation increased import competition, especially from China. Semiconductor sales slowed slightly. By contrast, demand for biotech products and pharmaceuticals has been expanding briskly, fueling high levels of capital spending and robust mergers and acquisitions activity. Orders of new aircraft dropped, but the elevated level of existing orders kept deliveries above their level from the same period last year. Contacts in the defense industry reported that federal sequestration continued to be a drag on new orders, prompting some firms to emphasize cost reduction and efficiency measures to maintain profitability. Uncertainty over the federal budget has put a crimp on defense industry planning over the near to medium term.

Agriculture and Resource-Related Industries

Agricultural activity expanded slightly during the reporting period. Contacts noted that the grain yield this year was excellent, although ample supply held down profits for individual growers. Higher-than-normal temperatures increased potato yields but reduced crop quality somewhat. A few contacts expressed concerns that the strong dollar has been restraining agricultural exports, and producers have not yet adjusted crop plans to account for slower demand growth from China. Extensive forest fires slowed logging activity, but contacts anticipate a return to normal production levels when expected fall precipitation helps bring wildfires under control.

Real Estate and Construction

Real estate activity picked up further. Contacts reported continued strong growth in residential housing construction throughout the District. Construction of new multifamily units continues to outpace construction of single-family units, and sales of existing homes remained strong. Labor conditions remain tight, and contacts reported having trouble scheduling contractors and completing construction projects on time and on budget. However, a contact in Salt Lake City mentioned that employment in the construction sector has not yet returned to its pre-recession level in that region. Permits for new residential projects grew modestly, although shortages of available land continued to constrain new construction somewhat. Contacts in the Bay Area and Los Angeles reported that prices for lower-end units grew faster than prices of luxury units, and they emphasized that affordability will remain a concern for the foreseeable future.

Financial Institutions

Lending activity grew modestly over the reporting period. Overall lending activity edged up, with funds remaining in ample supply relative to borrower demand. Deposits expanded further, particularly for short-term accounts, and banks reported difficulties converting short-term deposits into longer-term assets. Most contacts reported continued weakness in net margins and slow growth in profitability stemming from current low rates and uncertainty about future interest rate movements. Tight lending conditions in the residential market persist as banks remain wary of speculative projects. However, lending for commercial projects grew moderately over the reporting period. Capital levels remained relatively high, particularly for community banks. One contact mentioned that initial public offerings for technology companies had cooled due to international economic uncertainty, but mergers and acquisitions activity remained strong.