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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

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SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest to moderate pace during the reporting period of September through early October. Eight Districts reported similar growth rates in economic activity as during the previous reporting period, while growth slowed some in the Philadelphia, Richmond, Chicago, and Kansas City Districts. Contacts across Districts generally remained cautiously optimistic in their outlook for future economic activity, although many also noted an increase in uncertainty due largely to the federal government shutdown and debt ceiling debate.

Consumer spending continued to increase and activity in the travel and tourism sector expanded in most Districts. Business spending and payrolls grew in many Districts. Demand for nonfinancial services rose, and manufacturing activity also expanded modestly. Residential construction continued to increase at a moderate pace. By comparison, nonresidential construction again expanded at a slower rate. Residential and commercial real estate activity varied across Districts, but largely continued to improve. Financial conditions were little changed on balance, with lending activity remaining modest in most Districts. There were mixed reports on agriculture, with excess precipitation and drought both impacting the sector. Energy and mining activity expanded or maintained high levels, with the exception of the coal industry in the eastern half of the nation. Price and wage pressures were again limited.

Consumer Spending and Tourism

Consumer spending grew modestly in most Districts. Auto sales continued to be strong, particularly in the New York District where they were said to be increasingly robust. In contrast, Chicago, Kansas City, and Dallas indicated slower growth in auto sales in September. Growth in retail sales was steady in most of the Districts, but picked up some in Cleveland and Richmond and slowed in Chicago, Kansas City, and Dallas. Contacts in Chicago and Atlanta noted that back-to-school spending was lower

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* Prepared at the Federal Reserve Bank of Chicago and based on information collected on or before October 7, 2013. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

than a year ago. However, retailers generally remained optimistic about the holiday shopping season, with contacts in Philadelphia and Chicago expecting this year's holiday sales to be about equal to last year's despite the traditional holiday period being six days shorter this year. In addition, Dallas noted strength in retail imports in advance of the holiday season, with growth stronger than a year ago.

Activity in the travel and tourism sector also expanded in most areas, with the reports from the Atlanta, Boston, and New York Districts being particularly upbeat. Dallas indicated that airline passenger demand slowed seasonally, but was slightly stronger than year-ago levels. Tourism contacts in the Boston District were concerned about the potential impact of a protracted federal government shutdown; and Richmond noted that the shutdown had led to the closing of some tourist attractions, although hotel contacts indicated that these closures did not result in guest cancellations. In addition, Kansas City noted lower tourism activity due in part to the severe effects of recent flooding in Colorado.

Business Spending and Hiring

Business spending grew modestly in most Districts. Overall, inventory investment proceeded at a moderate rate. Retail inventories were said to be in-line with sales in the Boston, Cleveland, Chicago, and Dallas Districts. Philadelphia and Cleveland reported that inventories were on the low side at auto dealers, and Chicago noted the same was true at steel service centers. Philadelphia reported an increase in manufacturers' demand for equipment, while manufacturers in Cleveland and Chicago indicated that current capital outlays were primarily for productivity enhancing investments. Cleveland noted that low natural gas prices and regulatory uncertainty were slowing the build-out of shale-gas transport and processing infrastructure. In contrast, additional infrastructure projects to support natural resource extraction were mentioned in the Richmond, Minneapolis, and Kansas City Districts. Philadelphia and Chicago reported an increase in spending on information technology. Looking ahead, several Districts noted an improvement in capital spending plans. Manufacturers in Philadelphia and St. Louis, high-tech service firms in Kansas City, and retailers in the Cleveland and St. Louis Districts expected to increase capital spending in the months ahead. Technology contacts in San Francisco relayed expectations for a near-term pick-up in spending on both hardware and software products. In addition, Philadelphia and Minneapolis reported slight increases in activity at architecture firms.

Employment growth remained modest in September. Several Districts reported that contacts were cautious to expand payrolls, citing uncertainty surrounding the implementation of the Affordable Care Act and fiscal policy more generally. Cleveland and Dallas noted that retail hiring was primarily limited to staffing of new stores in their Districts, while contacts in Philadelphia, Cleveland, and Chicago reported that hiring for the holiday season would be about the same as last year. In manufacturing, Boston indicated that hiring primarily was for replacement or to fill key needs, New York noted slower job growth, and Chicago reported that manufacturers were cutting back on overtime. Dallas cited scattered reports of hiring in high-tech, fabricated metals, and food manufacturing. Furthermore, demand for skilled labor remained high in many Districts. Examples included technology, healthcare, and engineering occupations in Richmond, economic and health consulting in Boston, legal and compliance positions in the financial services industry in New York, and accountants and financial analysts in the Dallas District.

Nonfinancial Services

Demand for nonfinancial services increased modestly from the prior reporting period. Boston reported robust growth in consulting, but noted that activity at a government consulting firm remained weaker due to the effects of sequestration. The Minneapolis District reported increased activity in professional business services, whereas demand was more mixed in the Dallas District with strength in accounting services and a modest decrease in legal services. Demand for staffing services increased in the New York, Philadelphia, Cleveland, and Minneapolis Districts, with New York citing strong demand for information technology occupations and Cleveland highlighting healthcare and manufacturing. In contrast, staffing service activity was down slightly in the Chicago and Dallas Districts. Demand for technology services increased in the Kansas City and San Francisco Districts, but San Francisco indicated that overall demand for nonfinancial services was mixed with healthcare services somewhat weak. Demand for transportation services increased on balance. Port activity remained robust in the Richmond and Atlanta Districts, reflecting exports of grain, auto parts, and forest products and imports of energy products and steel. Atlanta, Kansas City and Dallas cited a modest rise in demand for transportation services. Cleveland reported that the rate of growth in shipping freight volume had slowed recently, and demand for trucking services softened slightly in the Richmond District.

Manufacturing

Overall, manufacturing activity expanded modestly in September, but with some notable exceptions among the Districts. Cleveland, St. Louis, and Minneapolis experienced faster growth, while New York, Richmond, and Chicago saw growth weaken. The automotive and aerospace industries continued to be a source of strength in a number of Districts. Demand for fabricated metals was mixed in the Chicago and Richmond Districts, but stronger in the Dallas District. Cleveland, Chicago, St. Louis, and San Francisco reported steady increases in the demand for steel; Cleveland, Chicago, and Atlanta indicated that much of the higher demand was being met by imports. Demand for construction materials remained strong for Philadelphia, increased for Cleveland and San Francisco, was flat for Dallas, and was slightly lower for the Chicago District. Cleveland and Dallas reported strong demand for manufactured inputs to energy production, and demand for heavy equipment improved slightly in the Richmond and Chicago Districts. High-tech manufacturing activity edged up in a number of Districts, with Boston and Dallas reporting slightly higher demand for semiconductors, and biotech manufacturing increasing in San Francisco. While there was little immediate disruption from the federal government shutdown, contacts were worried about the potential impact if the closing became prolonged.

Construction and Real Estate

Construction and real estate activity continued to improve in September. Residential construction increased moderately on balance, growing at a stronger pace in the Minneapolis and Dallas Districts but only slightly in Richmond and Philadelphia. Multifamily construction remained stronger than single-family construction in a number of Districts. Residential real estate activity continued to improve at a moderate pace in most Districts, as home sales and prices continued to rise and inventories remained low. Home sales in the New York and Dallas Districts were strong, with the exception of the Jersey Shore, which is still recovering from Hurricane Sandy. The Philadelphia, Atlanta, and Chicago Districts experienced a more modest improvement in home sales. A number of Districts reported concerns from homebuilders and realtors over rising mortgage rates. However, contacts in the Dallas District indicated that rising interest rates were not hurting affordability and contacts in the Boston District suggested some boost to activity by homebuyers entering the market in anticipation of future increases in rates. Nonresidential construction activity remained modest, but varied by market and District. Growth was strong in the Minneapolis District, but up only slightly in Richmond, Atlanta, and Philadelphia. The Cleveland, Chicago, and St. Louis Districts reported increased activity for industrial building, Cleveland noted strong demand from the healthcare sector, and redevelopment of vacant retail space picked up in Boston. Leasing activity continued to improve modestly in most Districts, but was particularly strong in the Dallas District. A number of Districts reported that vacancy rates continued to fall, rents rose, and the outlook for commercial real estate was generally positive.

Banking and Finance

Financial conditions were little changed on balance from the prior reporting period. Overall loan growth remained modest in most Districts. Consumer loan demand weakened slightly. Reports on mortgage lending were mixed. Several Districts noted a decrease in mortgage lending, citing higher mortgage rates and reduced refinancing activity. However, mortgage originations continued to rise in Philadelphia, Richmond, and Dallas, and rising home prices led to an increase in home equity lending in Philadelphia, Chicago, and San Francisco. Chicago, Cleveland, and Atlanta noted an increase in auto lending, while credit card volumes decreased slightly in Philadelphia. Business loan demand edged higher, with several Districts noting a pick-up in both commercial and industrial and commercial real estate lending. The Philadelphia, Cleveland, Richmond, Chicago, and Dallas Districts reported intense competition on pricing and terms for commercial and industrial loans. In addition, contacts in Philadelphia and Chicago expressed concern about an easing of credit standards on these loans. Overall, however, lending standards were largely unchanged and credit quality continued to improve moderately.

Agriculture and Natural Resources

Heavy rains hurt agriculture in the Richmond, Atlanta, and Kansas City Districts, even resulting in declarations of some natural disaster areas. At the other extreme, some portions of the Chicago, Minneapolis, and Dallas Districts experienced drought conditions, although they eased in some areas over the reporting period. Harvests were reported as behind their normal pace. Nonetheless, crop yields were higher than expected in the Chicago District and about average in the Kansas City District. Strong fruit output was noted in the Richmond, Chicago, and Minneapolis Districts. Cotton output was mixed across the South. Prices fell for corn, soybeans, wheat, hay, cotton, hogs, broilers, turkeys, and eggs, but rose for rice, citrus, grapes, milk, cattle, and dry beans. Livestock producers benefited from lower feed costs, as well as higher beef exports according to the Dallas District. San Francisco reported demand remained strong for most crop and livestock products.

Natural resource extraction increased in September. Oil and natural gas activity remained at high levels in the Cleveland and Dallas Districts, was solid in the Kansas City District, and expanded in the Richmond and Minneapolis Districts. Drilling rig counts were stable in the Richmond and Kansas City Districts, although the latter reported a shift in rigs from oil drilling toward natural gas. This shift was driven in part by expectations of higher natural gas prices and lower oil prices in the future. Atlanta and Dallas noted steady demand for energy. San Francisco indicated that demand for oil products edged up, resulting in increased refinery activity. Refinery expansions continued in the Atlanta District, although the cost of transporting inputs to Gulf Coast refineries rose. Mining activity picked up in the Minneapolis District. Coal production in the Cleveland and Richmond Districts slowed, but output was higher in St. Louis and Kansas City.

Prices and Wages

Price pressures remained limited in September. Most Districts reported only slight increases in commodity prices and limited ability to pass through these increases to their customers. Metal prices fell slightly in the Chicago District, but held steady in Minneapolis and were up slightly in Dallas. The Chicago, Kansas City, Dallas, and San Francisco Districts reported upward pressure on prices for building materials such as asphalt, brick, lumber, and concrete, with Kansas City indicating that concrete was in short supply in the Colorado areas affected by flooding. Energy prices in most Districts were steady to slightly lower than during the prior reporting period. In general, prices for final goods were little changed, except for a faster increase in retail prices in the Richmond District and higher food prices in the Kansas City and Dallas Districts. Wage pressures remained modest overall, though the Minneapolis and Richmond Districts reported moderate wage increases. Most Districts reported continued upward wage pressure for skilled workers, particularly those in consulting, accounting, information technology, engineering, and skilled manufacturing and construction trades.

FIRST DISTRICT – BOSTON

Reports from business contacts indicate the First District economy continues to grow, at a pace that varies depending on sector. Most retailers and manufacturers report moderate increases in revenue, while consulting and advertising contacts cite robust growth. Residential and commercial real estate markets continue to improve. Aside from consulting, most firms are doing little to no hiring, or hiring only for replacement. Prices are largely unchanged. Firms doing business with the government have been affected by the sequester; other firms are also concerned about potential effects of the government shutdown on consumer demand or broader economic effects of hitting the debt ceiling.

Retail and Tourism

The retail contacts reporting for this round cite September year-over-year comp store sales ranging from a 2 percent decrease to increases in the upper single digits. Consumer demand remains strong for apparel, home improvement items, home furnishings, and sporting goods, with online sales accounting for an increasing fraction of total sales. Inventories are said to be in good shape and prices remain steady. Contacts say that while consumer sentiment seems to have improved over the summer months through mid-September--which they attribute in part to more positive trends in the housing market–the recent decline in the stock market and federal government shutdown may damp consumer spending. Respondents note uncertainty about the underlying strength of the economic recovery.

Domestic and international leisure travel and corporate business travel and entertaining are quite strong. Hotel occupancy rates in Boston and Cambridge reached a nine-year high in August, with average room rates the highest in a decade. However, if the federal government shutdown lasts more than ten days, it could curtail some leisure travel, as domestic leisure travelers seem to operate within a 10-day booking window. October is New England’s busiest month of the year for travel, so such a curtailment now could be particularly significant for businesses throughout the region that rely on tourism.

Manufacturing and Related Services

Of 11 manufacturing firms contacted this cycle, only one, a frozen food producer, reports falling sales. Among firms reporting higher sales, those in the medical and technology areas with blockbuster products report double-digit sales growth, more or less independently of the state of the economy. The rest of the firms generally report year-on-year sales growth in low single digits and, for such firms, small changes are very significant. For example, a diversified firm in the building equipment and aerospace industries reports sales growth of only 3 percent when they expected 4 percent; as a result, the firm has imposed serious restrictions on hiring and, in some areas, substantial layoffs, as the firm attempts to meet earnings targets through cost containment.

On the global front, China has reportedly stabilized, but several contacts mention that other emerging markets declined, pointing in particular to Brazil and India. Indeed, a contact at a manufacturer of computer storage devices describes the two countries as “disasters.” Interestingly, the devaluation of the Indian currency was good for this firm’s income statement because, due to outsourcing, their costs in India exceed their revenues; nonetheless, the contact views the turmoil in India as worrisome news. A firm in the semiconductor industry reports that an unusually long down-cycle in sales appears to have come to an end and that sales have returned to their historic peak, achieved in 2010.

Eight of the 11 contacts say they are keeping employment steady and hiring only for replacement or for key needs. Of the remaining three, one plans to consolidate two business lines and cut headquarters staff, including some highly paid executives. The other two, a drug manufacturer and a computer storage firm, are hiring significantly and roughly in line with their sales growth.

Only one contact, a firm in the semiconductor equipment business, reports revising investment plans down recently. The rest are holding steady or accelerating their plans. In particular, the firm planning layoffs is at the same time “investing for the long run,” albeit mostly in Asia.

The outlook ranges from fair to very good. One contact in publishing expects slow growth for at least the next 12 to 18 months. Another contact said he was, “increasingly nervous that there is another little slowdown here." But many other contacts are quite optimistic, including a firm that had disappointing results in 2013, where the contact expects 2014 to be better.

Selected Business Services

Consulting and advertising contacts report a strong third quarter, consistent with a sustainably, but not rapidly, growing economy. Healthcare consultants cite the strongest results, as the double-digit revenue growth of the past few years continues. Demand for healthcare consulting services is driven by increased merger and acquisition activity among providers, adoption of new technology, compliance with new regulations, and the need for organizational change due to structural shifts in the healthcare industry. Demand for economic consulting remains strong, and strategy consultants report that "the economy is slowly picking up steam." Marketing contacts estimate industry-wide growth of 6 percent to 7 percent, driven by large corporate orders and a shift in demand towards higher-value items as companies have more to spend on marketing and branding. By contrast, a government consultant reports a slight drop in revenues and a smaller backlog as the sequester continues to reduce agencies' ability to purchase services.

Most firms' annual salary adjustments range from 2 percent to 4 percent. A majority of contacts report minimal increases in health insurance costs; however, two cite troublingly large increases. Firms' own rate increases are about 3 percent to 5 percent. Economic and healthcare consulting firms have been increasing employment 10 percent to 15 percent on an annual basis, strategy consultants closer to 5 percent, while marketing and government consultants report little to no hiring.

Contacts expect growth to continue at or moderately above its current level as long as the economy is not hit with a shock. Other than the government contractor, contacts are not worried about the sequester or European uncertainty, and several note that European risk has been "priced in" or forgotten about. Several are very concerned, however, about the potential for a debt ceiling-induced financial crisis.

Commercial Real Estate

Reports from First District contacts describe the region's commercial real estate markets as either stable or strengthening. A Boston contact cites improvement in leasing fundamentals in recent weeks across diverse sectors—including office and assisted living facilities—while investment sales demand is up from an already-strong pace. Redevelopment activity picked up in Boston's retail sector, with plans for filling and retooling vacant space in both urban and suburban locations. Another Boston contact says office leasing activity is roughly unchanged since the last report, with strong demand in the Seaport and Kendall Square areas and comparatively weak demand for locations in the Financial District. Build-to-suit office construction continues in prime neighborhoods but otherwise office construction is negligible in metro Boston. A Portland contact notes significant improvements in leasing fundamentals and investment demand in recent months. In Hartford, the sale of two large office building in recent months has resulted in a significant decline in the office vacancy rate for class A space, from upwards of 25 percent to roughly 17 percent, a decline that should lead to some firming of rents after a long period of stagnation. Also in Hartford, investor demand for prime office and multifamily properties stayed strong. A Providence contact is mostly upbeat, citing a modest uptick in leasing activity in recent weeks and some positive absorption of downtown office space. While leasing volume increased across the region, contacts note that most leasing deals consist of renewals-in-place or relocations of existing firms, with little to no net expansion of firms' footprints.

In Boston, local conditions lead contacts to expect more slow-to-modest growth in the commercial real estate sector moving forward, but national economic and political conditions lend uncertainty and downside risks to the outlook. In both Rhode Island and Connecticut, contacts are cautiously optimistic that commercial leasing fundamentals will continue to improve, but note that their respective states face persistent challenges to economic growth, leaving their overall prospects weaker than the U.S. average. A Portland contact is mostly optimistic that southern Maine will continue to see modest growth in leasing fundamentals, but expects investment sales to slow with rising interest rates.

Residential Real Estate

Residential real estate contacts in the First District say markets continue to strengthen and they are "cautiously optimistic" about the outlook. According to a source in New Hampshire, realtors are no longer talking about returning to a “non-recession” market, but rather stating that market conditions have returned to normal. August saw sales of single-family homes and condominiums continuing to increase across the region compared to August 2012. Market participants, however, are watching interest rates closely. Where current market activity is largely driven by first time home buyers – such as in Maine and Connecticut – higher interest rates could slow sales. In other states, rising interest rates may be temporarily spurring activity as buyers attempt to lock in lower rates. With the exception of one state which saw condo prices fall, median prices for single-family homes and condominiums rose in August relative to last year. Inventory trends vary across the states, with Massachusetts seeing inventory for single-family homes and condos low compared to historic norms – making it a sellers’ market – while inventory in Maine increased in August compared to a year ago and New Hampshire sources indicate there “appears to be more balance between buyers and sellers.”

While First District realtors say that this has been a turnaround year, they fear economic shocks could still stall the recovery. In addition, respondents express concern about negative effects on housing markets of the Biggert-Waters Flood Insurance Reform Act of 2012; they say that lack of affordable flood insurance may cause values to fall and buyer delays in newly redrawn flood zones.

SECOND DISTRICT – NEW YORK

Economic growth in the Second District has continued at a moderate pace since the last report. Contacts indicate some increase in cost pressures, though selling prices continue to be steady to up slightly. Labor market conditions have shown further signs of improvement, and there are scattered reports of wage pressures. General merchandise retailers indicate that sales were generally steady in September and close to plan, while new auto sales have been increasingly robust. Tourism activity has shown some signs of picking up since the last report. Commercial and especially residential real estate markets have shown signs of firming. In contrast, contacts in the manufacturing sector report a pause in growth, and the climate in the financial sector is described as downbeat. Bankers report softer loan demand from the household sector, no change in credit standards, little change in loan spreads, and continued widespread declines in delinquency rates. More broadly, some contacts express concern about potential disruptive effects of a prolonged federal government shutdown.

Consumer Spending

Retailers report that sales have been generally steady and close to plan since the last report. A major retail chain reports that sales were on plan in both August and September, with New York City stores continuing to out-perform the rest of the region. One major mall in upstate New York notes that sales picked up somewhat in September whereas another upstate mall indicates that sales have been steady and roughly on par with 2012 levels. Inventories are generally characterized as on plan. Prices are generally described as somewhat more promotional than a year ago.

Buffalo area auto dealers report that new vehicle sales were steady and strong in August, running 13 percent ahead of a year ago, while Rochester-area dealers report that sales accelerated and were up more than 20 percent. While final numbers are not yet tallied, sales are reported to have remained robust in September. Sales of used automobiles have generally been soft. Wholesale and retail credit conditions for auto purchases continue to be characterized as favorable.

Tourism activity has shown increasing strength since the last report. Manhattan hotels report that revenues were up 5-6 percent from a year earlier in September, following gains of 3-4 percent in both

July and August. Occupancy rates remain above 90 percent—up nearly 2 percentage points from comparable 2012 levels—while room rates are up roughly 3 percent. Based on bookings, October looks to be strong as well. Attendance at Broadway theaters picked up noticeably in August and especially in September. After running below 2012 levels for most of this year, attendance was up 5-6 percent from a year ago in September, and total revenues were up 10 percent—in part reflecting some new shows opening.

Finally, consumer confidence in the region has improved since the last report. The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, Pa) shows confidence surging to a nearly six year high in September, while Siena College's survey of New York State residents points to a more moderate increase.

Construction and Real Estate

Residential real estate markets in the District have been steady to stronger since the last report. Buffalo-area contacts continue to describe market conditions as robust in both August and September, with brisk sales volume, moderately rising prices, and continued reports of bidding wars. Sales activity in New York City's co-op and condo market was exceptionally brisk in the third quarter—the highest since 2007 and the 2nd highest in 24 years. Sales of smaller (one bedroom) apartments were particularly strong. The inventory of available apartments for sale has fallen to new lows, as completed transactions are outnumbering the flow of new listings. Whereas Manhattan prices have risen only modestly, prices for Brooklyn apartments are reported to be up 10-15 percent over the past year. New York City's rental market has been mixed: while Manhattan rents have stopped rising and are down slightly from a year ago, Brooklyn rents have been rising at a more than 10 percent pace.

A contact in New Jersey's housing industry reports continued gradual improvement in market conditions. Prices continue to rise modestly, held back by a persistent overhang of distressed properties. The Jersey shore sales market remains tepid, with prices still well below their pre-recession peaks—particularly in areas hard hit by Sandy last October.

Office markets were steady to stronger in the third quarter. Manhattan's vacancy rate declined to 7.3 percent—its lowest level in more than four years—while asking rents continued to rise, particularly on Class B properties. Long Island's office vacancy rate also edged down below 8 percent, though asking rents were little changed. In the northern New Jersey and Westchester/ Fairfield markets, however, vacancy rates were unchanged at much higher levels, while asking rents were little changed. A New Jersey real estate contact maintains that non-residential construction activity is almost strictly limited to renovations and improvements on existing properties.

Other Business Activity

On balance, the labor market has shown further signs of improving. One major employment agency reports broad-based strength in hiring activity and notes increasing difficulty finding qualified job candidates; more job-seekers are reportedly getting multiple offers and there are now scattered reports of salaries being bid up. Another contact, however, reports more modest improvement and characterizes wage offers as stable. Both contacts report particularly strong demand for IT workers. One employment agency notes that the government shutdown has hampered efforts to do background checks on prospective employees, whereas another contact indicates this has not been problematic thus far.

A contact in the finance sector characterizes the current business climate as gloomy—hiring has reportedly been mixed, with much of the demand focused on people in legal and compliance fields. Manufacturing firms in the District report some slowing in hiring activity, along with a pause in growth more generally; these contacts are also less optimistic about the near-term outlook. However, non-manufacturing firms generally indicate that both business and hiring activity have increased modestly since the last report, though these contacts have also become a bit less optimistic about the near term outlook and also in their net hiring plans. Both manufacturers and other firms report some pickup in input price pressures but little change in their selling prices.

Financial Developments

Bankers reported weakening demand for consumer loans and especially in residential mortgages but increased demand for commercial mortgages. Demand for mortgage refinancing also continued to decrease. Respondents reported no change in demand for commercial & industrial loans. Credit standards were unchanged across all loan categories. Respondents indicated a narrowing in spreads of loan rates over costs of funds for commercial loans and mortgages but no change in spreads for consumer loans and residential mortgages. Finally, bankers report further widespread declines in delinquency rates for all loan categories.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District slowed to a modest pace of growth during this current Beige Book period (beginning with the last week of August through the first partial week of October). The slowdown was most evident in the housing sectors – existing home sales slowed to a modest pace of growth, while homebuilders saw sales, traffic, and new contracts decline; however, construction continued at a modest pace. Other sectors that continued to expand at a modest rate included general retail sales, tourism, staffing services, and commercial real estate leasing. Commercial real estate construction continued to expand only slightly. Meanwhile, manufacturing activity improved to a modest pace of growth. Two broad sectors grew at a more than modest pace: Auto dealers continued to report a strong rate of sales growth, and moderate rates of growth continued for general services. Loan volumes at Third District banks grew at a modest pace across most categories, and credit quality continued to improve. Contacts reported little change to the slight overall increases in wages, home prices, and general price levels – similar to the last Beige Book period.

Despite a slower pace of growth in some sectors, contacts overall maintained an outlook for moderate growth – similar to the last Beige Book. The housing recovery has softened somewhat for existing home sellers and new homebuilders, and builders are less optimistic. However, contacts in other sectors continued to express confidence in the underlying economy. In particular, manufacturers and service-sector firms expressed greater confidence in the U.S. economy and in global conditions. In regard to hiring and capital expenditure plans, firms continued to expand cautiously, as they face ongoing uncertainty from the federal government shutdown and implementation of the Affordable Care Act.

Manufacturing

Overall, Third District manufacturers have reported a significant rebound in orders and shipments for a modest pace of growth since the last Beige Book. Over one-third of firms reported growth. Producers in nearly all sectors of durable and nondurable goods reported stronger activity. The chemicals and allied products industry was a notable exception. Overall, firms continued to report strong demand from auto- and residential construction-related businesses. Numerous firms reported growing demand for exports to Europe, China, and/or South America. However, one large industrial supplier reported continued growth through August, then softening in September.

Optimism that business conditions will improve over the next six months has broadened among Third District manufacturers. Contacts expect foreign and domestic demand to increase. Consequently, expectations of hiring and capital spending plans have largely rebounded since the last Beige Book, including more talk of “reshoring” of production that had gone overseas. However, several firms expect to deploy more capital than labor to meet higher production levels. The federal government shutdown has reignited concerns about fiscal drag, which is of most concern to smaller firms. Otherwise, the U.S. economy is still “poised to grow.”

Retail

Third District retailers have continued to report modest growth overall since the last Beige Book. Sales in August were generally stronger than in July, especially at outlet malls; sales at traditional mall retailers softened somewhat in the second half of August and then ticked up in early September after most schools had resumed. Convenience store retailers reported similar results but noted softness in discretionary purchases and a reliance on promotions and discounting. Hiring plans reported by area retailers for the 2013 holiday season were generally equal to or greater than last year’s – reflecting similar expectations for sales. Some retailers plan to add seasonal workers earlier in what appears to be an effort to extend the shopping season, since the traditional holiday period will be six days shorter than in 2012. The optimistic sales expectations generally assume that the federal government shutdown does not extend beyond two weeks.

Auto dealers reported that August was a “killer” month; however, year-over-year comparisons were boosted by stealing an extra Saturday from September compared with last year. September sales were reported as still very strong, although the lost weekend may account for a little dip from August’s pace. In addition, sales slowed for some dealers as they grew low on inventory. Dealers continued to report good prospects for future sales.

Finance

Overall, Third District financial firms continued to report modest increases in total loan volume. The most notable difference from the last Beige Book period was a slight drop in commercial real estate loan volumes. Contacts noted that demand for mortgages to purchase homes continued to increase modestly, as did demand for home equity lines and C&I loans. Stronger increases were noted for most types of consumer lending, although volumes for credit cards fell off slightly. Some bankers indicated that home equity lines were being used to pay off remaining low mortgage balances. However, with the rise in interest rates, a mortgage servicing company indicated that prepayments were starting to slow. While some contacts reported growth of activity from medium-sized companies, most continued to report that small businesses remain very cautious. Many banking contacts expressed concerns about aggressive competition on rates and terms, suggesting that credit standards may have eased a little. Overall, most bankers remained optimistic, although they expressed uncertainty on behalf of their business customers and for themselves over the implications of both the Affordable Care Act and a prolonged government shutdown.

Real Estate and Construction

Third District homebuilders reported mixed results in August – from weak demand to “finished strong.” However, by the end of September, most builders reported that traffic was down and that very few contracts for new construction had closed. Builders assigned only partial blame to rising interest rates, stressing as well that the pool of potential buyers has been culled by weakened consumer confidence. The recent slowdown has caused builders to adjust their outlook lower. General residential construction activity continues to grow slightly from prior sales. Also, other contacts reported strong demand for home renovations. A final tally of existing home sales also indicated a slower year-over-year pace of growth in August than in July, according to many residential brokers. Sales closed and sales pending barely hit double-digit percent increases (year over year) in a few of the Third District’s larger metropolitan areas; the metrics were worse in other areas. Homes sold were nearly flat in the Harrisburg area and fell in the Lehigh Valley. Sales pending grew a mere 2 percent in the Greater Philadelphia area.

Although little change was indicated by nonresidential real estate contacts in the modest pace of overall leasing activity and slight growth of construction, their outlook improved overall. Architecture and engineering firms continued to see stronger interest and workflow. The resurgence of Philadelphia-area refineries continued to reignite strong construction and maintenance operations. Leasing agents, management companies, and commercial market analysts are increasingly upbeat over the steady progress in various sectors and locations within the Third District.

Services

Third District service-sector firms continued to report a moderate pace of growth overall; staffing firms and tourism maintained a more modest pace. Parts of the Jersey shore experienced lighter traffic this season. Hotel activity was on par with previous seasons; however, longer-term rentals were down, suggesting that tourists kept their visits short. A Delaware shore realtor reported slow but steady sales in August and September; however, the realtor did not see the pickup in rentals he was expecting during the summer season.

Other service firms continued a moderate pace of growth overall. A large IT firm reported a very strong increase in sales as “the floodgates opened over the last year.” Another large service firm reported continued moderate improvement in its base business and an increase in new business from last year. A third large firm reported “not much has changed – a point or two on the softer side,” but still growing and doing great. Overall, service-sector firms remained optimistic about future growth.

Prices and Wages

Overall, price levels continued to increase slightly, similar to the previous Beige Book. Manufacturing firms reported that prices paid and prices received moved higher again; the increases were more widespread this period than last. However, auto dealers and general retailers reported little change in pricing, and builders reported holding prices steady. Most contacts report coping with extremely tight margins. Generally, real estate contacts continued to report rising prices for lower-priced homes, while higher-priced homes are aligned to local market conditions. Some contacts reported high-cost increases for employees’ health insurance coverage. However, very few contacts are seeing wage pressures, other than for a few highly skilled occupations.

FOURTH DISTRICT – CLEVELAND

The Fourth District's economy continued to expand at a moderate pace during the past six weeks. On balance, demand for manufactured products grew at a moderate rate. Housing market activity held steady; nonetheless, sales of new and existing homes were above year-ago levels. Nonresidential builders saw an overall pick-up in business. Retailers reported stronger sales during August and September, while new motor-vehicle purchases posted moderate gains on a year-over-year basis. Shale-gas activity is showing signs of moderating due to low natural gas prices; still, production is at historic highs. Output at coal mines trended lower. The rate of growth in freight volume has slowed. Applications for business credit were flat, while consumer credit demand rose slightly.

Hiring was sluggish across industry sectors. Staffing-firm representatives reported that the number of job openings and placements increased slightly, with vacancies found primarily in healthcare and manufacturing. Wage pressures remain contained. Input and finished goods prices saw little change, apart from increases in residential construction materials.

Manufacturing

Reports from District factories showed that demand was steady to growing at a robust pace during the past couple of months. Companies seeing the strongest activity were suppliers to the housing, motor-vehicle, and oil and gas industries. Weakness in euro-zone and Asian economies was often cited as a barrier to stronger growth. Defense contractors are still coping with uncertainty, which was attributed to the sequester. Compared to a year ago, manufacturing production levels are similar or higher. Most of our contacts are cautiously optimistic and expect little change in demand, although many were uneasy about fiscal issues and implications of the Affordable Care Act on their businesses. Steel producers and service centers reported that shipping volume is increasing, but at a very slow rate. Several respondents continue to express concern about the quantity of steel imports, especially from China. Steel producers do not expect market conditions to change appreciably in the upcoming months. District auto production recovered in August on a month-over-month basis as motor-vehicle assembly plants returned to normal production schedules. Compared to a year ago, motor-vehicle production figures revealed a sizeable increase.

Only a few manufacturers reported that they are moving forward with capacity expansion plans. Other producers said that they see a need to expand capacity, but they will not proceed because of uncertainty about the economy. One manufacturer commented that he will postpone any expansion until GDP grows at a sustained rate of 3 percent. Capital outlays are being allocated primarily for productivity enhancements. Several manufacturers indicated that they are taking a more conservative stance toward upcoming capital budgets until there is a higher degree of certainty about future demand. Raw material and finished goods prices were generally flat. Factories expanded payrolls at a sluggish pace. Several contacts expect production wages will rise between 2 and 3 percent in the near term. There is anxiety about rising health insurance premiums, which was attributed to the Affordable Care Act.

Real Estate

Sales of new single-family homes and construction starts were stable but below levels seen during the second quarter. Compared to a year ago, new home-building activity is considerably higher. Builders are uncertain about the effect of rising interest rates on potential buyers. New-home contracts were found mainly in the mid-price-point category. The first-time home-buyer category remains very weak. Builders are confident that demand for new homes will persist in the upcoming months, and they believe that some loosening in credit markets would provide a boost to their industry. Selling prices of new homes are rising across the District. Two builders told us that they were able to push through increases during August to offset rising labor and material costs.

Nonresidential builders reported an overall pick-up in business, but it remains difficult to move projects from the pipeline to a contract signing due to uncertainty on the part of clients. Very large projects are few in number, and renovations are more prevalent than new building in some regions of the District. In general, business is stronger than a year ago. Inquiries and backlogs have strengthened since our last report. The strongest activity was in manufacturing, distribution, healthcare, and multifamily housing. A developer of retail space characterized his industry as strong and much more positive than two years ago. He noted a decline in regional mall footprints due to chain consolidation and on-line shopping. Our contacts were fairly optimistic about near-term growth prospects, but they are concerned about unresolved fiscal policy issues.

Prices for residential construction materials—lumber and drywall—have increased substantially in the past year, but the rate of increase is slowing. General contractors reported very limited hiring of field and office workers. Many builders cited a scarcity of high-skilled trade workers, many of whom left the industry during the recession and are not returning. As a result, there is upward pressure on wages, and subcontractors are demanding higher rates.   Subcontractors are also having difficulty obtaining operating capital.

Consumer Spending

Most retailers we spoke with reported that same-store sales were stronger in August and September than they had been during the previous four months and were above year-ago levels. They cited an improving labor market and new product introductions as reasons for the increase. Products in greater demand included back-to-school items, home furnishings, and cold-weather apparel. A food retailer attributed her chain's margin growth to consumers trading up in their buying habits. Fourth-quarter sales are expected to improve slightly when compared to those in the third quarter. Inventories were described as being in good shape. Retailers were able to clear out their left-over summer merchandise. Vendor and shelf prices held steady, and agricultural prices stabilized. Some of our contacts expect to increase capital spending in 2014, mainly for improving e-commerce and distribution systems. Hiring will be limited to staffing new stores. Temporary hiring for the upcoming holiday shopping season is expected to be modestly higher than a year ago.

Year-to-date sales through August of new motor vehicles showed a moderate increase when compared to the same time period a year ago. On a month-over-month basis, purchases of new vehicles were only slightly higher during August versus July. Buyers continue to prefer smaller, fuel-efficient vehicles, although trucks are in big demand in regions with considerable shale-gas activity. New-vehicle inventories are lower than desired, which dealers attributed to the model-year changeover. Our contacts are optimistic about sales for the remainder of the year. They project that sales volume for 2013 will be about 10 percent higher than in 2012 due to pent-up demand, the availability of financing, and the option to lease. Used-vehicle purchases increased during the past six weeks. Employment levels at dealerships held steady. Many of our contacts are concerned about the implementation of the Affordable Care Act and the effect it will have on their total labor cost.

Banking

Bankers reported that the low-interest-rate environment continues to hurt their revenues, though net interest margins are in line with expectations. Little change is anticipated in the near term. Demand for business credit was largely unchanged during the past six weeks. No loan category or industry is performing significantly better than others, although several bankers noted that commercial real estate lending has picked up. Competition for quality loans was described as aggressive. Consumer-credit demand showed a slight improvement, especially for auto loans and credit cards. Most bankers reported a slowdown in residential mortgage activity, mainly on the refinancing side. A slight rise in interest rates had little effect on new- purchase applications. For the most part, delinquency rates declined slightly across categories. On balance, banking payrolls were flat. We heard a couple of reports about layoffs due to branch-office downsizing or closures. Some wage pressure was reported, especially for employees working in regulation.

Energy

District coal production remains below year-ago levels; however, the rate of decline is shrinking. Going forward, producers project little change in production, but they are uneasy about the effects of the regulatory environment. Spot prices for steam coal declined, whereas metallurgical coal prices were flat. Oil and gas drilling held steady during the past six weeks. Output from shale-gas wells in Pennsylvania during the first half of 2013 was at a historic high. Well-head prices for natural gas are flat to down. One contact reported that, due to low natural gas prices and regulatory uncertainty at the federal, state, and local levels, the shale-gas industry will grow very slowly through the end of 2014, and the build-out of the transport and processing infrastructure will take longer to complete than originally estimated. Capital outlays are at targeted levels, and little change was seen in production-equipment and material costs. One coal company reported a workforce reduction; otherwise, payrolls held steady.

Freight Transportation

Freight executives reported that the rate of growth in shipping volume has slowed recently. However, year-to-date volume is higher when compared to the same period in 2012. Demand from motor-vehicle, shale-gas, and housing industries was strong. The industry outlook is favorable, with volume growing at a slow, but steady pace. Freight haulers are still uncertain about the impact of newly enacted hours-of-service regulations, especially on labor costs. Other operating costs were fairly stable. A few contacts noted that they have successfully negotiated rate increases. Some respondents plan to reduce capital outlays during the next fiscal year because substantial monies have already been allocated for capacity expansion or because equipment costs are high. The industry has been actively hiring for replacement and adding capacity.

FIFTH DISTRICT – RICHMOND

Overview

District economic conditions improved modestly, on balance, since our last report. Manufacturing shipments and new orders softened, with only a few producers reporting strength. Retail revenues were flat to modestly higher, and auto sales improved year over year, although a few dealers reported recent flattening. Conditions were mixed at non-retail services firms, with some slowing in tourism. Lending activity increased slightly, and competition for quality loans was intense. Residential real estate sales improved, except for higher end homes, and there were some reports of new home construction. Commercial leasing varied by location and new construction was limited, except for multi-family housing. While excessive summer rain may reduce some crops, peanut yields were bountiful. Natural gas production rose and expansion was expected to continue; in contrast, coal mining declined further. Labor markets grew slowly, despite difficulty finding skilled workers. Average wages rose at a faster pace across the board. Prices grew more quickly in the service sector and at manufacturing firms.

Manufacturing

Manufacturing generally weakened since our last report. Shipments dropped for most products, and manufacturers said that both military and civilian orders were down. Although manufacturers of metals, pulp, paper, and chemicals indicated an increase in shipments in recent weeks, their new orders softened. However, a machinery manufacturer expected orders to increase because conditions were improving and distributors had kept inventories lean. A manufacturer of milled wood products reported that he currently has sufficient supply, but many lumber harvesting companies have gone out of business, which could lead to shortages when demand picks up. Auto parts manufacturing remained strong, and an aircraft executive remarked that orders for civilian planes were up. According to our latest manufacturing survey, the pace of price increases picked up for raw materials and finished goods.

Ports

Port activity remained strong in recent weeks. Port officials expect that even after the seasonal increase winds down, import levels will remain above last year. Food and beverage imports increased, while exports of automotive parts were particularly strong. Forest product exports also increased, as Chinese import constraints were partially lifted. The volume of containerized grain exports was robust in recent weeks. Heavy equipment imports and exports slowed as some U.S. coal mines closed and Chinese purchases slowed. However a port contact cautioned that comparisons to a year ago appeared weaker than usual because of last year's substantial replenishment of some equipment.

Retail

Merchants reported flat to modestly improved sales revenues in recent weeks. An executive with a chain of hardware stores remarked that sales were flat since our last report, although year-over-year same-store sales had increased. Home and garden retailers, as well as suppliers of building materials reported stronger sales, and a manager at a sporting goods store commented that his revenues were up despite rising freight costs. Auto sales were strong at a dealership near the Washington, D.C. beltway, although other dealers in Maryland and Virginia indicated sales were flat. Many smaller retailers have limited weekly hours per employee to control healthcare costs. As a result, some employees are taking second jobs, and a few firms are even partnering to help their employees "stitch together" full time hours by working for both businesses. Average retail prices rose more quickly in recent weeks.

Services

Revenues at non-retail services firms were mixed since our last report. Demand for trucking services softened slightly in recent weeks, according to a national freight carrier. Another contact reported that loads have become heavier and there is a shift to rail transportation. Healthcare systems executives reported little change in demand, while cost reduction has continued. An executive at a West Virginia bookkeeping firm said his business was steady, while a Maryland firm that provides medical records systems said that revenues picked up. In addition, large construction companies in Maryland and Washington, D.C. reported an increase in revenues. Services price increases quickened.

Tourist bookings slowed from recent strong growth. Although the federal government shutdown closed some tourist attractions, those closures did not result in guest cancellations, according to several hotel contacts. Bookings were flat for a hotel on the Maryland side of the Chesapeake Bay, and a central

North Carolina hotel reported unusually slow bookings. A hotel manager in the Tidewater, Virginia area reported that summer finished on a strong note, but the autumn market of government and association bookings was below normal. A tourism contact on the outer banks of North Carolina told us that hotel bookings and rentals were stable, with family stays during Thanksgiving becoming increasingly popular. A resort manager in western Virginia has already received a few early season ski reservations. An hotelier in the North Carolina Piedmont expected a strong October for leaf viewing and a sold-out holiday season.

Finance

Consumer lending increased slightly. New residential mortgage lending increased according to a lender in West Virginia, who said that more people were taking long-term fixed rate mortgages rather than one to five year ARM's. He added that he has a decent pipeline for several months ahead and rates were stable. A North Carolina lender reported that loan demand was stable although pricing, especially for jumbo loans, was very competitive. He commented that some lenders were willing to sacrifice a good bit of margin to get those loans and another banker described the environment as "pretty brutal." In contrast, a lender in Virginia noted much slower demand for loans and mortgages. A Northern Virginia banker commented, "Banks are chasing the good deals," and therefore, spreads remained low. Inside the Washington beltway, demand for commercial real estate lending was strong, particularly for hotels and apartment buildings. A central Virginia banker also reported that lending for multi-family housing and commercial refinancing remained solid. A lender in North Carolina said while real estate loans slowed, demand for other commercial loans rose modestly, particularly in metro areas. Competition for commercial and industrial lending was strong. Lenders generally reported no changes in standards and credit quality.

Real Estate

Residential real estate markets improved, although new construction was limited. Residential sales increased according to a Realtor in the Washington, D.C. area. He noted that days on the market remained low despite reduced foot traffic, and sales in most price ranges improved, with the exception of homes over $1.5 million. A central North Carolina Realtor reported that sales and prices rose, while inventory on the market declined to slightly over five months. Houses in the more affordable range were moving, while the higher-end market was slow. Another Realtor commented that the mortgage process could take four and a half months for even the best applicants. A Maryland contact noted that new restrictions were making the mortgage process more challenging. He reported fewer days on the market and a marked increase in sales of entry level homes, while inventory remained steady. According to a report from the Tidewater area of Virginia, residential real estate sales were strong. A contact in South Carolina told us sales were up, mostly for price levels below $250,000. He also stated that condo sales rose slightly, but foreclosures and short sales in that area continued to depress prices.

Commercial development of multi-family housing has remained strong. A central Virginia Realtor reported that there is virtually no new speculative commercial building, and medical construction is either build to suit or with sixty to eighty percent of tenants. In contrast, smaller scale, single family residential development there picked up, and construction and renovation of apartment buildings was strong. He added that leasing activity was “reasonable” for smaller tenants; rents firmed and there were fewer incentives. Commercial leasing slowed in the D.C. area, according to a contact who told us people are “punting a little” before making decisions on five to ten year leases and construction. A central North Carolina real estate broker reported that retail leasing had improved slightly. Another Realtor in that state said last year’s incentives were burning off, and leasing activity was steady. He commented that vacant office space was sufficient except for very large blocks, while industrial warehouse construction was picking up despite rising construction costs. In West Virginia, a Realtor noted that increased calls and site visits did not necessarily translate into a new purchase agreement.

Agriculture and Natural Resources

Fruit and peanut yields have been excellent, while cucumber production was reduced this autumn as a result of too much rain. Cotton and soybean harvests are also expected to be low this year because of the excessive rain this summer.

Natural gas production rose since our last report. A contact noted that some wells on the perimeter of production areas in West Virginia have produced more than expected, leading to speculation that the ultimate production area may be larger than originally defined. As always, further expansion will depend on prices, which declined in recent weeks. More pipeline was added, while the rig count remained static. Coal production in the District declined, with the year-to-date percentage drop in Maryland and Virginia both in double digits. West Virginia coal production also fell, although the drop was not as steep.

Labor Markets

Labor markets continued their slow expansion in most areas of the District since our last report. Our most recent survey results indicated that employment in manufacturing and in the non-retail service sector grew modestly. Employers across the District reported rising turnover and challenges finding qualified workers in biotech, health care, information technology, engineering, and advanced manufacturing. Demand for low- or semi-skilled workers included truckers, retail associates, warehouse employees, machine operators, and collections agents. Many contacts also commented on reluctance to expand due to uncertainty surrounding the Affordable Care Act; some employers cut hours or employees. Remarks on effects of sequestration were mixed. Average wages in the manufacturing and service sectors increased more quickly in recent weeks.

SIXTH DISTRICT – ATLANTA

Summary

Sixth District business contacts described economic activity as expanding slowly in September. The outlook among firms remains optimistic as most expect near-term growth to be sustained at or slightly above current levels.

Most retailers cited slightly improved levels of spending and auto dealers continued to experience solid results. Hospitality reports remained largely positive. Residential brokers and builders continued to witness improvements in many parts of the District as sales and prices of new and existing homes increased compared with a year ago. Commercial development picked up slightly, led by multifamily construction. Manufacturers indicated that new orders and production had increased since the last report. Bankers saw increased volumes for both commercial and consumer loans. Payrolls across the region expanded, albeit at a slower pace than the previous report. Firms noted input costs remained stable.

Consumer Spending and Tourism

District retailers continued to report modest spending as consumers remained focused on finding deals. Back-to-school retailers and fast-food establishments cited that sales were slightly lower than a year ago; however, District auto dealers reported continued gains in light vehicle sales. On average, merchants indicated that sales and store traffic were slightly up for the year and are expecting this trend to carry on for the remainder of the year.

The travel and tourism sector continued to cite healthy demand in leisure travel as hotel bookings, revenue per available room, and attendance at conventions and attractions all increased. Contacts confirmed a slight increase in hiring, as well as a healthy supply of qualified applicants. However, government cut backs and softening demand from Europe and China were sources of concern for many hospitality firms. Overall, the industry is anticipating the same pace of growth for the rest of the year and into the beginning of 2014 based on reports of advanced bookings.

Real Estate and Construction

Overall, District brokers indicated that existing home sales remained ahead of last year's level. In particular, home sales growth continued to improve among Florida brokers while brokers outside of Florida noticed that sales growth remained positive but slowed notably on a year-over-year basis. Brokers also noted a larger than usual seasonal slowdown in buyer traffic. By most accounts, inventory levels continued to decline on a year-over-year basis and home prices continued to rise. The outlook for sales remains slightly positive with half of brokers anticipating sales gains over the next several months.

District homebuilders said that new home sales and construction were ahead of year earlier levels. However, reports indicated new home sales softened in recent months. Most builders saw modest home price appreciation since the last report. The outlook for new home sales and construction was positive, but the outlook for growth moderated from earlier in the year.

District commercial brokers noted that demand for space improved at a modest pace towards the end of the summer. Construction activity was described as flat to slightly up on a year-over-year basis with apartment development dominating activity. Contractors noted that government related construction slowed while light manufacturing related construction picked up. Brokers indicated that most markets still favored tenants; however, rental rate increases continued to be noted in select submarkets. The outlook among District commercial real estate contacts remained positive with further improvements expected for the rest of the year.

Manufacturing and Transportation

Most District manufacturers reported that the pace of growth remained flat or rose slightly in September. New orders, production, finished inventories, commodity prices, and hiring all increased since the previous period while supply delivery times experienced a modest decrease. Auto manufacturers in particular continued to describe solid demand for their products. When asked about their outlook, one-third of regional purchasing managers expect higher production over the next three to six months.

Regional trucking contacts reported recent increases in tonnage, primarily because of shipments related to housing, autos, and energy. However, truckload and less-than-truckload volumes were described as mostly flat for the year. District ports continued to cite increased activity in the movement of energy products and steel imports, along with an uptick in exports of forestry products, such as wood pellets and resins. Containerized freight growth was seen as mostly even for the year. Regional railroad firms reported significant year-to-date declines in the shipment of agricultural products and military equipment; however, substantial increases in the movement of chemicals and nonferrous scrap metals have offset those declines.

Banking and Finance

Bankers voiced concern over interest rate risk as they noticed that their competitors were more willing to extend credit and in some cases were aggressively seeking qualified borrowers. According to some contacts, banks seemed to be luring loan business mostly away from each other, rather than creating new opportunities.

District bankers reported increased activity in owner-occupied commercial real estate, commercial and industrial, manufacturing, small business, and healthcare lending. Consumer loan volume, including purchase/construction mortgages, second mortgages, auto loans, and even credit cards, was strong in some regions. However, mortgage lending overall had slowed as interest rates increased and the refinancing boom subsided. Some contacts mentioned residential real estate lending was now about evenly split between refinancing and new mortgages.

Employment and Prices

Since the last report, the District's overall pace of payroll growth slowed somewhat. In July, Georgia and Florida saw payroll gains greater than the District's monthly average for the year, but August's sizeable contractions in payrolls in those states brought the pace closer to the monthly average. Louisiana saw strong gains in leisure and hospitality employment, particularly in accommodation and food services. The District's rate of unemployment remained unchanged and slightly higher than the national average. Employers continued to report hiring hesitancy related to changes in healthcare regulation and fiscal policy uncertainty.

Input costs remained largely stable, according to business contacts. The few input costs that were cited as rising were doing so very slowly. According to our September Business Inflation Expectations survey, increases in unit costs remained in the range of 1.3 to 1.7 percent over the past year. Looking forward, businesses expect unit costs to rise by 1.9 percent, on average, over the next 12-months. There were few reports of pricing power and margins remained tight. Wages remained in a range that met expectations of most firms, but some noted upward wage pressures for certain high-skilled workers.

Natural Resources and Agriculture

Energy refiners across the region have been in the throes of expansion as new projects and investments continue to be announced. Contacts reported that demand and inventories of oil and natural gas remained steady. Additionally, transportation of these natural resources to the Gulf Coast for refinement and processing was increasingly occurring via barges and trucks rather than pipeline and rail since those networks are under construction. Contacts indicated that this method of transportation was driving up costs.

As a result of this year’s excessive rain and flooding, which heavily damaged some crops, the USDA declared most counties in Alabama and many in Georgia, Florida, and Tennessee as natural disaster areas. Since the last report, average monthly prices paid to farmers for corn, cotton, soybeans, hogs, and broilers were down but were up for rice, citrus, beef, and milk. Lower corn prices benefitted livestock producers that rely on corn for feed. Compared to August, cotton estimates for September indicated reduced production in Florida, Mississippi, and Tennessee; higher production in Alabama and Louisiana; and unchanged production in Georgia.

SEVENTH DISTRICT – CHICAGO

Summary

The rate of growth in economic activity in the Seventh District slowed a bit in September. Contacts remained generally optimistic, but several expressed concern about the potential impact of a protracted federal government shutdown. Growth in consumer and business spending was modest. Manufacturing production and construction continued to grow at a moderate pace. Credit conditions changed little on balance. Cost and wage pressures remained mild. Corn and soybean yields were higher than expected, contributing to lower crop prices.

Consumer spending

Consumer spending grew modestly in September, falling short of retailers' expectations. Auto sales increased at a slower pace, but dealers noted continued strength in demand for used vehicles and in the fuel-efficient passenger car and light truck segments. Non-auto retailers reported that back-to-school spending was less than last year. However, sales of electronics and home-related items such as furniture, appliances, building materials, and gardening supplies remained stronger. Retailers expected holiday season spending to be similar to last year.

Business spending

Growth in business spending flattened out in September. Inventories remained at comfortable levels according to most retailers and manufacturers. However, a few noted low inventories of used vehicles and at steel service centers. Growth in capital spending slowed slightly, though contacts reported an increase in productivity-enhancing investments to structures, equipment, and information technology as well as workforce training. The pace of hiring edged lower. Manufacturing contacts noted layoffs in several mining-related industries, and reported cutting back on overtime. Retailers indicated that seasonal hiring plans were about the same as last year, and a staffing agency reported a slight reduction in billable hours. In contrast, contacts continued to report plans to increase employment over the remainder of the year. Demand remained strong for skilled and experienced workers, with many such positions still difficult to fill. Several manufacturing contacts also noted difficulty in finding and retaining entry-level workers.

Construction/real estate

Construction and real estate activity continued to increase in September. Demand for residential construction grew moderately, with single-family homebuilding increasing at a steady pace and multifamily construction softening somewhat. Many contacts worried that higher interest rates could lead builders to cut back on new development projects. Sales of new homes continued to increase as inventories remained low, although growth was not as strong as in previous months. Real estate contacts noted that increasing competition for listings among brokers had pushed commission rates lower. Nonresidential construction grew modestly, as contacts noted an improvement in the outlook for industrial building. Commercial real estate activity continued to expand, although vacancy rates, particularly in the retail sector, remained elevated.

Manufacturing

Growth in manufacturing production decreased slightly in September. The auto and aerospace industries were again a source of strength for District manufacturing. Steel production and capacity utilization were steady, with an increase in domestic demand for steel primarily met by a rise in imports. Specialty metal manufacturers reported lower shipments, but remained optimistic for the fourth quarter as order books filled. Demand for heavy equipment continued to be soft, although orders picked up some. Contacts also cited an improving outlook for the industry, driven by an expected recovery in export demand and domestic construction. Manufacturers of construction materials and household appliances experienced a slight decline in demand, but remained optimistic about the recovery in the housing market. Manufacturing contacts, in general, remained cautiously optimistic for the remainder of this year and 2014, but several expressed concern about the confidence of their customers amid the federal government shutdown.

Banking/finance

Credit conditions changed little on balance over the reporting period. Financial market participants noted an increase in market volatility with heightened uncertainty surrounding recent monetary and fiscal policy actions. Banking contacts again noted competitive pressures for commercial and industrial loans, with narrowing spreads and easing standards. Some also expressed concern about the potential deterioration of underwriting standards for these loans. In addition, several contacts cited a modest increase in demand for commercial real estate lending. Consumer loan demand was steady, with a decrease in mortgage lending and an increase in auto lending. Purchase and refinance mortgage activity declined with contacts citing higher interest rates, although increasing home prices led to a modest increase in home-equity lending.

Prices/costs

Cost pressures changed little in September. Overall, commodity prices were down slightly. Prices for metals such as steel, copper, and aluminum edged lower. In contrast, contacts reported increases in prices for building materials such as asphalt and concrete as well as for some energy prices. Retailers again noted a slight increase in wholesale prices, although few were able to pass them along to their customers. Wage pressures remained mild, while non-wage labor costs increased. A number of contacts voiced concern about the uncertainty surrounding future employer and employee healthcare costs. In addition, several reported changing their health insurance enrollment periods this year in order to match the deadlines of the Affordable Care Act.

Agriculture

Although this year’s drought affected the harvest, corn and soybean yields in parts of the District were higher than expected in September. In fact, a contact reported that the local harvest would be the best in four years. Soybean yields were more variable than and not as favorable as corn yields. In the areas affected by drought, subsoil moisture and genetic advances in seeds reduced yield losses. Rains in September slowed harvesting, even damaging some crops that were mature. Crops harvested and sold early brought a premium due to low crop stocks prior to harvest. Since then, corn prices have dropped relatively more than soybean prices. With much of the harvest still unsold, farmers will store more of the crop in the hope of better selling opportunities over the winter. Milk and cattle prices increased from the previous reporting period, while hog prices decreased. Livestock producers continued to benefit from lower feed costs. Fruit crops bounced back strongly from last year’s devastating freeze, leading to lower prices.

EIGHTH DISTRICT – ST. LOUIS

Summary

Economic activity in the Eighth District has grown at a moderate pace since the previous report. Recent reports of planned activity in manufacturing and services have been positive. Reports from contacts in the retail sector have also been generally positive. Residential as well as commercial and industrial real estate market conditions have continued to improve. Total lending at a sample of small and midsized District banks decreased from mid-June to mid-September.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the Eighth District, while a smaller number of manufacturers reported plans to reduce employment. Firms in automobile parts, consumer products, magazine, package, tubular products, coiled metal springs, machinery, steel, chemical, specialty chemical, and plastic products manufacturing plan to hire new employees and expand operations in the Eighth District. In contrast, firms in pharmaceutical products, shoes, food, and aircraft manufacturing reported plans to lay off workers in the District.

Reports of planned activity in the District’s service sector have also been positive since the previous report. Firms in distribution, logistics, telecommunication, online shopping, wealth management, transportation, and veterinarian services reported new hiring and expansion plans. In contrast, firms in healthcare services plan to lay off employees. Reports from contacts in the retail sector have been mostly positive, as contacts noted a number of major investment projects and expansions among retail stores and restaurants. In Louisville, contacts noted that retail stores appear to be performing well and new restaurants are opening regularly; contacts also indicate higher traffic at fast food restaurants. In St. Louis, contacts noted high foot traffic and sales at two new outlet malls.

Real Estate and Construction

Home sales have continued to increase throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2012, August 2013 year-to-date home sales were up 17 percent in Louisville, 19 percent in Little Rock, 10 percent in Memphis, and 8 percent in St. Louis. August 2013 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2012. Permits increased 8.2 percent in Louisville, 21 percent in Memphis, and 17 percent in St. Louis, but decreased 5 percent in Little Rock.

Commercial and industrial real estate market conditions have continued to improve throughout most of the District. Contacts in Little Rock reported decreased office vacancy rates and increased asking rents. A contact in St. Louis noted a rebound in the industrial real estate market, while a contact in Memphis reported a strengthened industrial real estate market. A contact in northwest Kentucky reported that commercial real estate activity is expected to increase by the end of 2013, while the industrial vacancy rate is expected to decline. Commercial and industrial construction activity also continued to improve throughout most of the District. A contact in central Kentucky noted increased commercial construction in Hardin County. A contact in northeast Arkansas reported that commercial development continued to be strong in northeast Jonesboro. Contacts in St. Louis reported plans for expansion of a manufacturing factory in southwest Missouri and industrial development in north St. Louis.

Banking and Finance

Total loans outstanding at a sample of small and midsized District banks decreased 1.1 percent from mid-June to mid-September. Real estate lending, which accounts for 72.9 percent of total loans, decreased 0.9 percent. Commercial and industrial loans, accounting for 15.7 percent of total loans, remained largely unchanged. Loans to individuals, accounting for 5 percent of total loans, increased 4.6 percent. All other loans, accounting for 6.4 percent of total loans, decreased 9.6 percent. During this period, total deposits at these banks remained largely unchanged.

Agriculture and Natural Resources

Crop conditions across the District remained relatively unchanged from our previous report. On average, 89 percent of the District states' corn, cotton, sorghum, and soybean crops were rated in fair or better condition. Similarly, about 80 percent of the District states' pastureland was rated in fair or better condition. Harvest progress in the District lagged behind the 5-year average for all five major crops. The District corn, cotton, and rice harvests were 19 percent, 14 percent, and 18 percent behind their five-year averages, respectively. The District sorghum and soybean crops fared slightly better at 9 percent and 8 percent behind their five-year averages, respectively. Year-to-date coal production in the District for August was about 3 percent higher compared with the same period in 2012. In contrast, coal production for August 2013 was about 1 percent lower than in August 2012.

NINTH DISTRICT – MINNEAPOLIS

The Ninth District economy grew moderately since the last report. Increased activity was noted in consumer spending, tourism, residential and commercial real estate, professional services, manufacturing, energy and mining. Residential and commercial construction continues to grow at a robust rate, while agricultural conditions deteriorated somewhat. Labor markets tightened modestly since the last report, and wage increases were moderate. Price increases were modest. The effects of the partial federal government shutdown on the Ninth District economy were too early to determine.

Consumer Spending and Tourism

Overall consumer spending increased since the last report. Sales and traffic at a Minneapolis area mall were level during the past two months, according to the mall manager. Recent sales were about the same as last year's strong results at a North Dakota mall; apparel sales were soft. A Minnesota-based food producer reported that recent cereal sales increased 4 percent compared with a year earlier. A Minnesota auto dealer reported recent strong traffic and sales for new and used cars and trucks; service business was also strong. New vehicle sales were robust in North Dakota, but activity was slightly slower from exceptionally strong sales a year ago.

Tourism activity was solid. Respondents to a survey of Minnesota hotels, resorts and campgrounds expect fall occupancy to be somewhat better than in 2012. Tourism businesses in Montana noted strong occupancy levels at hotels and motels and solid activity at tourism destinations through the end of the summer season. Convention business and leisure travel was very good during the past two months in the Sioux Falls, S.D., area, according to an official. However, some South Dakota hotels noted that fall reservations by hunters decreased due to a report that the number of pheasants in the state was down. Tourism destinations funded by the federal government were recently closed due to the partial government shutdown.

Construction and Real Estate

Commercial construction activity continued to grow since the last report. The value of September commercial building permits in Billings, Mont., increased significantly from last year. In Sioux Falls, the value of September commercial permits increased from a year ago. Several commercial building projects were announced in the Minneapolis-St. Paul area since the last report. Robust growth was noted in residential construction, especially for multifamily housing. Several multifamily building projects were announced since the last report. A long-time developer of apartment buildings warned that “massive” amounts of construction could be a sign of overbuilding. In the Minneapolis-St. Paul area, the value of residential permits in September was up by 47 percent from September of 2012. However, the value of September residential building permits in Sioux Falls and Billings fell from 2012.

Activity in commercial real estate markets increased since the last report. Contacts noted that several commercial real estate transactions occurred since the last report, including sales and leasing activity at higher rents. A real estate analytical firm reported that retail vacancy rates edged downward in the Minneapolis market in the third quarter. A contact from a hotel chain noted increased occupancy and rates for properties in the Ninth District. Residential real estate markets experienced moderate growth since the last report. August home sales were up 7 percent from the same period a year ago in Minnesota; the inventory of homes for sale increased by 4 percent, and median sale prices rose 14 percent. However, in the Sioux Falls area, September home sales were down 4 percent, inventory was down 5 percent and the median sale price increased 3 percent relative to a year earlier. In La Crosse, Wis., September home sales and the median price declined from September 2012.

Services

Recent activity at professional business services firms grew since the last report. A web design firm noted strong demand, but growth was limited by the lack of available talent. A package design firm noted a recent uptick in activity. Architect contacts noted a slight increase in bidding activity. Mortgage and real estate title company contacts reported a continued decrease in refinance activity.

Manufacturing

District manufacturing activity continued to grow moderately. A September survey of purchasing managers by Creighton University (Omaha, Neb.) indicated that manufacturing activity increased in

Minnesota and the Dakotas. An aerospace manufacturer announced a $34 million expansion of a plant in Montana. A producer of landscaping equipment announced plans to expand a Minnesota facility.

Energy and Mining

The energy sector continued to grow. Late-September oil and gas exploration activity increased in North Dakota and was flat in Montana from a month earlier; production remained at record levels. Several highway expansion projects were under way in western North Dakota to accommodate oilfield traffic. Meanwhile, mining activity increased. Production at District iron ore mines picked up from its lull earlier in the year, but remained slightly below year-earlier levels. A stalled copper-nickel mining development in Michigan's Upper Peninsula resumed construction after it was sold to another owner. Work began on a Montana plant that will reprocess mining waste for construction and industrial use.

Agriculture

Agricultural conditions deteriorated somewhat since the last report. Drought conditions returned to the eastern part of the District in late summer, with parts of eastern North Dakota and central Minnesota seeing severe drought conditions in early September. Crop progress remains behind average due to late spring planting, and yields are likely to be affected. While much of the District corn and soybean crops remain in good or excellent condition, overall quality has fallen in recent weeks. However, in Minnesota, apple growers are expecting a strong harvest. Prices received by farmers in September increased from a year earlier for hogs, cattle, milk, dry beans and chickens; prices for corn, wheat, soybeans, hay, eggs and turkeys fell from a year earlier.

Employment, Wages and Prices

Labor markets tightened modestly since the last report. Minnesota initial claims for unemployment insurance benefits decreased 12 percent in August compared with a year earlier.

A web-based image publishing company recently broke ground on a facility in Minnesota that will add at least 300 jobs to the area. A Minnesota manufacturing company expansion will add 50 new positions at its headquarters. Contacts from Minnesota staffing agencies noted increased demand for workers and fewer workers applying for jobs. However, a bank recently eliminated about 330 jobs in

Minnesota due to slowing demand for home-mortgage financing, and a Minnesota advertising company recently laid off more than 30 workers in the state. A Minnesota-based retailer announced that it is planning to hire fewer temporary workers during the holiday season than last year.

Wage increases were moderate. According to a recent St. Cloud (Minn.) Area Quarterly Business Report, 43 percent of respondents expect to increase compensation over the next six months, while 56 percent expect no change. In last year’s survey, 41 percent expected to increase compensation, while 58 percent expected no change.

Price increases were modest. Most metals prices were relatively level since the last report. Minnesota gasoline prices at the end of September were down about 20 cents per gallon from the end of August and almost 40 cents per gallon from a year earlier.

TENTH DISTRICT – KANSAS CITY

The Tenth District economy expanded modestly in September after growing at a slightly faster pace during the previous survey period. Consumer spending slowed somewhat as a decrease in automobile, restaurant and tourism sales was offset in part by an increase in retail activity. Manufacturing activity grew modestly, and expectations for future activity improved substantially. Residential home sales and prices continued to rise, but contacts anticipated a marginal decline in home sales in the months ahead. Commercial real estate conditions continued to improve, and additional gains were anticipated. Bankers reported stronger overall loan demand, improved loan quality, and stable deposit levels. District crop yields were expected to be about average, but falling crop prices led to lower farm income projections. Energy activity in the District remained solid as natural gas drilling rigs increased slightly and the number of oil rigs edged down in September. Wage pressures eased somewhat since the last survey, and prices held steady for most finished goods, while prices continued to rise moderately for raw materials.

Consumer Spending

Consumer spending slowed somewhat in September as a decline in automobile, restaurant and tourism sales was offset in part by an increase in retail activity. Retail sales picked up since the last survey, with appliance and lower-priced retail purchases particularly strong. District retailers continued to expect higher sales moving into the holiday shopping season. Automobile sales declined in September, but were in line with expectations and remained above year-ago levels. Small SUVs, cars and trucks sold well, while large SUV sales were weak. Automobile dealers expected stable sales in the coming months. Despite a slight decline in restaurant sales in September, restaurant sales remained significantly higher than year-ago levels, and respondents were more optimistic about the next few months compared to the last survey. Hotel occupancy rates fell and tourism counts declined due in part to seasonal factors. A couple of Colorado contacts also noted a decrease in restaurant sales and tourism activity due to severe effects from the recent flooding. Both occupancy rates and tourism were expected to continue to decline over the next three months.

Manufacturing and Other Business Activity

Manufacturing activity rose modestly in September, while sales at high-tech service firms experienced strong growth and transportation activity edged up. Durable manufacturing production, shipments and new orders increased moderately since the last survey, while non-durable goods manufacturing activity decreased marginally in September. Activity in the manufacturing sector remained well above year-ago levels, and manufacturers' expectations for future activity improved substantially. Contacts expected strong growth for production, new orders and shipments over the next six months. Capital spending in the manufacturing sector was higher than a year ago and was expected to increase further in the months ahead. Sales at high-tech firms picked up in September after falling slightly during the previous survey period. High-tech services contacts also expected sales and capital spending to increase solidly in the months ahead. Transportation firms reported a modest rise in activity but did not expect additional gains in the coming months.

Real Estate and Construction

Residential and commercial real estate activity remained strong in September. District residential real estate sales increased moderately and remained much higher than a year ago. Low to mid-priced homes continued to sell well, while higher priced home sales remained sluggish. The pace of home sales was projected to tick down over the next few months. Inventory levels held steady at low levels and were constraining sales in some areas. Residential home prices continued to rise across the District, and additional price gains were expected over the next few months as supported by lower anticipated inventories. Builders reported a modest gain in home starts, and construction supply firms expected stronger sales in the coming months. Residential mortgage lenders noted that higher interest rates had led to fewer refinances. Furthermore, they reported that increased regulation had added costs and tightened lending conditions. Commercial real estate construction rose, and commercial vacancy rates declined further. Commercial real estate sales were expected to pick up, and rents were expected to rise over the next three months.

Banking

In the recent survey period, bankers reported stronger overall loan demand, improved loan quality, and stable deposit levels. Respondents reported increased demand for commercial and industrial loans and commercial real estate loans, steady demand for consumer installment loans, and decreased demand for residential real estate loans. Many bankers reported improved loan quality compared to a year ago, and nearly all bankers expected the outlook for loan quality to either improve or remain the same over the next six months. Credit standards remained unchanged in all major loan categories, and respondents reported stable deposits.

Agriculture

In the agriculture sector, crop production expectations were little changed from the previous survey period, but falling prices lowered farm income expectations. With most of the corn and soybean crops still in relatively good condition, overall District yields were expected to be about average. As harvest began, however, a greater probability of near-record corn and soybean production nationally led to a drop in prices, cutting farm income expectations. Meanwhile, heavy rainfall in Colorado and flooding along the South Platte River affected some agricultural lowlands. Scattered storms slowed harvest activity and winter wheat planting, but helped soil moisture conditions. Lower feed prices narrowed losses for cattle feedlot operators and improved profitability for hog producers. Weaker farm income prospects were expected to curtail farm household and capital spending, but demand for quality farmland remained strong.

Energy

District energy activity remained solid in September, and expectations for the coming months improved slightly. Natural gas drilling rigs for the District increased modestly in September, particularly in Colorado and Oklahoma, as gas prices remained stable. District oil drilling rigs edged down over the past month, with most of the decrease occurring in Oklahoma. Respondents expected drilling to remain stable through the end of the year as capital spending increases shift to midstream business such as pipelines. Higher oil prices continue to make oil drilling more attractive than natural gas exploration.

Looking forward, however, respondents expected oil prices to drop and natural gas prices to rise in the coming months. Wyoming's coal production continued a moderate expansion from the summer months, but remained below year-ago levels.

Wages and Prices

Wage pressures eased slightly in September, while prices rose moderately for raw materials and held steady for most finished goods. Labor shortages declined over the past month in most sectors, and most contacts reported little wage pressure outside specific skilled positions including technicians, software developers, truck drivers, and engineers. Retailers reported a small decline in prices and expected only modest price gains in the months ahead. Restaurant contacts continued to report rising food costs, but held menu prices flat. Average hotel room rates declined as occupancy rates also fell. After an acceleration in the pace of raw materials price increases in August, manufacturers reported a slight moderation in the pace of price increases in September. Manufacturers raised finished goods prices modestly, and most contacts expected additional price increases in the months ahead. Transportation firms held prices steady despite higher input costs. Builders reported little input cost pressures except for items experiencing a shortage. One example noted was a shortage of concrete and equipment in flooded Colorado areas. Commercial real estate prices and rents were flat over the past month but remained higher than year-ago levels. Residential home prices continued to rise, and additional gains were expected in the months ahead.

ELEVENTH DISTRICT – DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. Manufacturing activity increased overall and retail sales edged up. Services firms reported mixed demand. The housing sector remained strong, with rising construction and sales. Office and industrial leasing activity picked up. Financial institutions said loan demand was flat to up modestly. Energy activity remained at high levels, and the severity of drought conditions eased somewhat. Prices held steady or rose at most responding firms. Employment levels were flat or slightly increased, and wage pressures picked up.

Prices

Contacts said prices were stable or up over the reporting period. Manufacturers reported flat prices with the exception of increases in cement, brick, and paper. Contacts noted no change in retail or automobile prices since the last report. Accounting and legal firms noted modest increases in billing rates, and shipping rates increased in light of higher fuel costs. Airlines reported mostly flat ticket prices but higher fees. Home prices rose notably, and several real estate contacts noted strong growth in office and apartment rents. There were some reports of increased input costs, particularly for steel, rubber, beef, and dairy products.

Changes in energy prices were mixed; natural gas prices held steady while the price of West Texas Intermediate crude oil fell slightly over the reporting period. Gasoline and diesel prices declined modestly from six weeks ago.

Labor Market

Employment levels held steady or increased slightly at most responding firms. Scattered reports of hiring came from staffing services, high-tech firms, fabricated metals and food manufacturers. Retail hiring was generally limited to new stores, and headcounts rose at law firms as fall associates came on board. Reports of labor shortages eased somewhat from earlier in the year, although construction firms cited difficulty finding subcontractors, and some respondents noted a competitive job market for accountants and financial analysts.

Reports of pay increases were more widespread than in prior periods. Accounting firms noted strong increases in wages and bonuses. A retail contact reported upward wage pressure for IT workers, and wages rose in fabricated metals and construction-related manufacturing. Legal and finance firms said raises will be modest but above what was given last year.

Manufacturing

Most responding firms noted an increase in manufacturing activity over the reporting period. Construction-related manufacturers said demand was flat or up, and a brick contact noted a sharp rise in residential projects. Fabricated metals demand continued to rise, supported by the energy sector and road construction, while demand for primary metals softened slightly but remained at or above year-ago levels. Demand increased for paper and food producers.

High-tech manufacturers said orders were flat to slightly up, and one semiconductor firm noted demand increased for three consecutive quarters for the first time since 2010. Respondents expect mild growth to continue over the next three to six months.

Some transportation manufacturing contacts reported sizable increases in demand. An automobile manufacturer said a pickup in construction prompted a rise in demand for light trucks, and that orders exceeded production capacity. Contacts expect 2013 to be on par with 2012 or slightly stronger.

Petrochemical producers noted decreased production in August, although year-to-date production was slightly above what it was during the same period last year. Increased oil prices provided further support to the cost advantage of domestic petrochemical firms, but softening global demand and unplanned outages suppressed exports.

Retail Sales

Respondents reported that retail sales were up slightly over the reporting period, and year-over-year demand was up in the low to middle single digits. Two national firms reported that retail activity in Texas continued to marginally outperform activity in the nation. Contacts' outlooks for the next six to twelve months are cautiously positive.

Automobile sales held fairly steady overall. Demand was up year over year but not as much as expected, possibly due to a lack of confidence among buyers. Inventories were in line with respondents' expectations. Contacts have positive outlooks for the fourth quarter and into 2014.

Nonfinancial Services

Nonfinancial services contacts reported mixed demand. Staffing services firms noted flat demand overall since the last report but saw an unexpected decline in direct hires. One contact saw a few signed contracts designed to circumvent the Affordable Care Act (ACA) by utilizing a temporary employee full time, then hiring that person on a permanent but part-time basis when the ACA goes into effect. Accounting firms noted demand was up seasonally due to upcoming tax deadlines, and also up modestly year over year. Contacts expect the strong demand to continue, with a further pickup in transactions work. Legal firms reported a modest decrease in demand. Litigation and corporate transactions work remained slow, and demand fell for healthcare and land use legal services. Intellectual property litigation increased and real estate work remained elevated, although it abated recently. The outlook for legal services is guarded and lawyers are less bullish than in prior periods.

Transportation service firms said container and cargo volumes increased over the reporting period, except for air cargo, which held steady. Loaded container volume was up in August and up year to date compared with the same period in 2012. Strength was reported in retail imports in advance of the holiday season, and the growth was stronger than last year. Small parcel cargo volume grew at an accelerating pace in August, with growth driven by e-commerce. Air cargo volume was largely unchanged over the reporting period, both domestically and internationally, and was down slightly on a year-to-date basis when compared with last year. Contacts noted a continued trend toward cargo being carried less by passenger aircraft and more by cargo airlines.

Airline contacts noted a seasonal decline in passenger demand over the past six weeks, although demand was slightly stronger than year-ago levels. Travel to Latin America and Europe was robust while travel to Asia was weak. Firms expect the fourth quarter to compare favorably to the fourth quarter of last year, and one contact is optimistic that 2014 will be stronger than 2013.

Construction and Real Estate

The District housing sector remained strong over the reporting period. Respondents said most major Texas markets continued to record robust sales, while demand slowed in some parts of the U.S. Home prices continued to rise, due in part to low inventories of existing homes and finished lots. Contacts expect the pace of price increases to moderate slightly when new home construction catches up to demand. The summer’s rise in mortgage rates had little effect on demand and reduced affordability only slightly, according to respondents. Contacts expect steady demand through the rest of the year and anticipate construction levels in 2014 will pick up further. Healthy apartment demand pushed occupancy rates higher despite high levels of multifamily construction activity. Increases in rents were strong in several major metros, and contacts are optimistic in their outlooks for 2014.

Office and industrial leasing activity strengthened, especially in Dallas and Houston, and contacts noted strong growth in rents for class A office space. Several respondents noted a pickup in investment sales for office and industrial buildings. Outlooks for Texas commercial real estate remained optimistic.

Financial Services

Loan demand remained soft and was flat to up modestly from six weeks ago. Demand for mortgages was robust, although increased mortgage rates lowered demand from exceptionally high levels and led to less mortgage refinancing. Loan quality was good and continued to improve modestly. Financial institutions were able to sell real estate owned properties for gains. Loan pricing remained extremely competitive, with big banks undercutting community banks, especially in Austin. Deposit volumes and rates did not change, but there was some competition in rates for certificates of deposit. Outlooks are cautiously optimistic, with mortgage lending expected to remain strong and small business lending expected to increase.

Energy

Respondents said that energy activity was little changed at high levels over the reporting period. Activity was better than a year ago, but margins for oil and gas services firms have tightened. Global demand held steady. Oil and gas extraction firms continued to expect modest improvement through the end of 2013 and into 2014.

Agriculture

The District remained largely in drought, although the severity lessened in late September in Texas due to good rainfall and the excessive heat tapering off. The harvest progressed normally for row crops, and conditions were mostly fair to good. Improved moisture conditions increased optimism for the winter wheat crop. Beef exports increased over the reporting period.

TWELFTH DISTRICT – SAN FRANCISCO

Summary

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of late August through early October. Price pressures were limited for most final goods and services, and upward wage pressures remained modest overall. Retail sales were a bit soft, while demand for business and consumer services was mixed. District manufacturing activity inched up. Agricultural production and sales expanded. Demand for housing advanced, and commercial real estate activity gained. Reports from financial institutions indicated that loan demand rose.

Prices and Wages

Price pressures were tame for most final goods and services. While wheat prices have increased, contacts in the agricultural and restaurant industries mentioned softening prices of some other commodities, particularly beef. Some retail grocers were reluctant to raise shelf prices, citing consumers' price sensitivity. Technology industry contacts recognized stronger downward pressure on prices resulting from more aggressive competition lately. Reports indicated upward pressure on prices of various construction inputs, including wood and cement.

Upward wage pressures remained modest overall. Slack in the labor market restrained wage gains in most sectors, occupations, and regions. Firms in various industries continued to compete vigorously for a limited pool of qualified workers, including construction supervisors and software developers, spurring significant wage growth. In particular, reports noted that the pace of wage gains for software developers might have even picked up in recent months. Contacts indicated that some small businesses have boosted compensation packages to minimize voluntary staff turnover.

Retail Trade and Services

Aside from spending on big-ticket items and certain technology products, retail sales were a bit soft. Contacts pointed to evidence of pent-up demand and attractive financing opportunities spurring households to purchase big-ticket items, particularly autos and housing-related goods. Contacts in the technology industry expect a near-term pickup in spending on various hardware and software products, including storage, cloud computing-related infrastructure, and enterprise security software. Retail grocers and department store contacts noted flat and sluggish sales, respectively. A beverage retailer also noted that consumer demand was stagnant. On net, luxury items and premium brands sold relatively well, but growth slowed for other categories of full-priced items as consumers continued to search for the lowest prices.

Demand for business and consumer services was mixed. Technology contacts noted that, although demand for various technology services ticked up in the U.S. and near-term expectations remain positive, demand in Europe appeared to slip. Reports indicated that demand for discretionary health-care services was somewhat weak. Restaurant industry contacts noted ongoing softness in same-store sales in the quick-service restaurant and casual dining segments of the industry. Travel and tourism activity in Hawaii maintained its solid pace of growth, although contacts noted weaker visitor arrivals from the western United States recently. Contacts noted year-over-year declines in Las Vegas gaming revenues, as the tourism industry there continued to face challenges.

Manufacturing

District manufacturing activity appeared to inch up during the reporting period of late August through early October. Contacts noted that activity along the supply chain for electronic components improved, and capacity utilization remained near its historical average. Uncertainty about fiscal policy triggered reductions of new orders and revenue in the defense industry. Providers of pharmaceuticals noted increased activity in the biotech drug industry. A wood products manufacturer indicated that demand eased over the summer, and a metal manufacturer noted that production activity slowed a bit. However, demand for steel products used primarily in nonresidential construction edged up further, and steel producers reported that overall capacity utilization was mostly stable. In particular, reports indicated an ongoing trend of stronger capacity utilization for steel manufacturing of automobile and aircraft-related inputs than for nonresidential construction inputs.

Agriculture and Resource-related Industries

Agricultural and resource-related sales and production activity expanded in the District. Demand remained strong for most crop and livestock products. Contacts noted that competition for grapes in the California wine industry contributed to higher prices for grapes, which passed through to raisin prices, reducing sales and increasing inventories of raisins. Water availability was adequate on net but limited in some areas. Overall demand for oil products ticked up. Refinery utilization rates, total refinery inputs, and gasoline production activity increased since the previous reporting period. The stock of stored natural gas was up as well compared with the previous reporting period, but notably down year-over-year. Utility providers reported that consumer energy usage patterns were consistent with ongoing modest growth in consumer spending.

Real Estate and Construction

Housing demand advanced overall, and commercial real estate activity improved. Home prices and sales climbed further in many District cities. Reports indicated that residential permit issuance increased in parts of California but decreased in some areas of the Pacific Northwest. Construction activity ramped up on net, although in some areas, new building activity was held back by factors such as poor lot availability and shortages of skilled construction workers. Contacts indicated that multifamily residential construction projects increased. Rental rates for commercial real estate were stable by some reports and up according to others. Technology and medical services firms in particular drove the growth in demand for commercial real estate in the San Francisco Bay Area and Seattle.

Financial Institutions

Financial institutions indicated that loan demand rose. Most contacts reported increased lending. Some small businesses in areas with strengthening local economic conditions sought increased financing for equipment or real estate purchases. Some banks reported slower mortgage origination and especially refinancing activity in response to higher interest rates, although rising home price appraisals have sparked increased activity in home equity lending. Reports highlighted ample bank liquidity and substantial competition for high-quality commercial borrowers. Regional and community banks aggressively sought out well-qualified small business borrowers. Demand for asset management and investment advisory services was strong. In the District's Internet and digital media sectors, mergers and acquisitions and venture capital activity grew in terms of both deal value and volume, and the pace of initial public offerings picked up substantially. Private equity financing activity, on the other hand, was mostly flat.