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Summary of Commentary on ________________________

Current Economic Conditions

By Federal Reserve District

April 2015

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

APRIL 2015

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Summary[*]

Reports from the twelve Federal Reserve Districts indicate that the economy continued to expand across most regions from mid-February through the end of March. Activity in the Richmond, Chicago, Minneapolis, Dallas, and San Francisco Districts grew at a moderate pace, while New York, Philadelphia, and St. Louis cited modest growth. Boston reported that business activity continues to expand, while Cleveland cited a slight pace of growth. Atlanta and Kansas City described economic conditions as steady.

Demand for manufactured products was mixed during the current reporting period. Weakening activity was attributed in part to the strong dollar, falling oil prices, and the harsh winter weather. Business service firms saw rising activity, especially for high-tech services, and they expect positive near-term growth. Cargo diversions resulting from labor disputes on the West Coast boosted activity at several East Coast ports. A majority of Districts reported higher retail sales, and they cited consumer savings from lower energy prices as helping boost transactions. Auto sales rose in most Districts. Tourism and business travel is rebounding from the harsh winter, with contacts expecting growth for the remainder of the year in corporate and leisure travel. Residential real estate activity was steady to improving across most Districts, although there was some slowing in housing starts due to abnormal seasonal patterns owing to the harsh weather. Multifamily construction remains strong. Activity in nonresidential real estate was stable or improved slightly across many Districts. Agricultural conditions worsened slightly. Factors contributing to these conditions varied by District, but included wet fields, persistent drought, and a harsh winter. Investment in oil and gas drilling declined, while mining activity was mixed. Banking conditions were largely stable, with some improvement seen in loan demand.

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[*] Prepared at the Federal Reserve Bank of Cleveland based on information collected on or before April 3, 2015. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Labor markets remained stable or continued to improve modestly. Layoffs related to the decline in oil and gas prices were reported in multiple Districts. Difficulty finding skilled workers was frequently reported. Districts noted modest upward pressure on wages and overall prices.

Manufacturing

Demand for manufactured products was mixed during the current reporting period. Boston, Philadelphia, Atlanta, Chicago, Dallas, and San Francisco reported an increase on net, while some weakening was observed in New York, Richmond, St. Louis, and Kansas City. Gains in activity among aerospace firms were reported in the Cleveland, Chicago, and San Francisco Districts. Philadelphia, St. Louis, and Kansas City noted weakening in the primary and fabricated metal products industry, while their counterparts in Dallas reported growth. A slowing in the chemicals industry was observed in St. Louis and Kansas City, while chemical producers in Dallas cited lower prices and margins, and lower exports, which they attributed to the strong dollar. Weakness in the steel industry was seen in Cleveland, Chicago, and San Francisco. The auto industry remained a source of strength in Cleveland and Chicago. Contacts in Boston, Philadelphia, Richmond, and Dallas believe harsh winter weather had a dampening effect on activity. Boston, Cleveland, Chicago, and Dallas attributed some weakening in demand to a strong dollar, which increased the risk to international sales. One firm in Boston noted that the changing value of the dollar increases incentives to minimize inventories. Falling oil prices had a negative impact on new orders to energy supplier companies in Cleveland, Chicago, Kansas City, Dallas, and San Francisco. Some firms in Cleveland and Philadelphia noted heightened uncertainty due to anticipated weak demand from customers serving the energy sector. However, an oilfield machinery manufacturer in Dallas expects that the energy industry will begin showing signs of improvement in the second quarter. Capital spending plans were little changed in Boston and Cleveland, but they declined in Philadelphia and Kansas City. Richmond and Atlanta reported a slight increase in inventories, whereas Boston reported no significant changes. The overall outlook by contacts in Boston, Philadelphia, and Dallas is positive. However, in Cleveland and Atlanta, optimism regarding the outlook has waned slightly during the last six weeks. In Kansas City, producers' expectations for future activity moderated somewhat but remain slightly positive.

Nonfinancial Services

Nonfinancial services firms saw rising activity across all reporting Districts. A pickup in demand for high-tech services such as cyber security and web development was reported by contacts in Richmond, Minneapolis, Kansas City, Dallas, and San Francisco. Healthcare-related services are experiencing accelerating growth in Boston and Richmond. Dallas law firms noted more work in mergers and acquisitions, bankruptcies, and litigation. Sales were strong for accounting services in Richmond and Dallas. A rise in demand for architectural services was seen in Minneapolis and San Francisco. In Boston, government agencies started awarding more contracts to private-sector consulting firms, albeit with less assured funding. Service providers in Boston, Philadelphia, Kansas City, and Dallas have an optimistic outlook and expect positive near-term growth trends for their firms.

Demand for transportation and freight services was mixed. Freight haulers in Cleveland reported that volume has declined from the high levels seen late last year. They attributed it to harsh winter weather and fallout from the labor dispute at California ports, which lessened shipments to the District. District port officials in Richmond noted stronger volumes over the reporting period. Diversions from the West Coast added to the volume. Coal exports continued to decline, while auto exports and imports remained strong. Reports on transportation activity in Atlanta were mixed. Contacts at East Coast ports cited significant upticks in cargo volumes as shipments were redirected from the West Coast due to labor disputes. Railroad cargo traffic, however, was described as flat to only slightly up compared with year-ago levels. The majority of Atlanta's logistic contacts anticipate higher growth for the year. In Dallas, sea, air, and courier cargo volumes were up over the reporting period, while rail cargo volumes were down. Air cargo contacts noted that volume growth in the international market outpaced that in the domestic market.

Consumer Spending and Tourism

The Boston, Philadelphia, St. Louis, Minneapolis, and San Francisco Districts reported higher retail sales. New York, Richmond, Atlanta, Chicago, Kansas City, and Dallas reported that retail sales were mixed to slightly down, with colder-than-normal temperatures being mentioned as one possible cause. Cleveland noted that retail sales were flat year-over-year. Among retailers, the outlook was generally optimistic in Boston, Philadelphia, Atlanta, St Louis, Kanas City, and Dallas. Many Districts noted that savings from lower energy prices are helping to drive retail sales this cycle, as is the improving weather situation. Dallas retailers expressed some caution about the strength of the U.S. dollar, while New York noted that some retailers saw a falloff in Canadian shoppers due to the strong dollar. It was reported that consumer confidence in the New York District, albeit slightly lower, remains near its multi-year high, set in January.

Auto sales rose in most Districts during the cycle period. Reports from Cleveland, Atlanta, and Chicago indicated that lower gasoline prices were causing consumers to shift from cars to light trucks or SUVs. New York and Philadelphia reported that sales had bounced back in March from the harsh winter weather in February. However, in Kanas City, auto sales slowed in March and were flat compared to last year. Dallas continues to see auto sales increase, but may see slowing demand growth later in the year, depending on the effect of the energy-industry slowdown and interest rate movements.

Tourism and travel started to rebound from the harsh weather seen in the winter months. Boston and New York reported tourism below levels seen a year ago. Boston noted that there are still ripple effects through many industries that are related to the bad weather this past winter, while Atlanta, St. Louis, and Kansas City reported positive and growing activity in their Districts. A few Districts noted that business travel and convention-center bookings are up. Atlanta mentioned that lower gasoline prices are a contributing factor to the rise in visitors driving to destinations. Minneapolis reported tourism activity as flat for the cycle; warm weather and the lack of snow brought an early end to winter tourism for several areas in this District. But summer bookings for hotels are up compared to last year. New York tourism activity has slowed somewhat in recent weeks. Theaters are experiencing weaker revenues, and occupancy rates and room rates in New York City are down from a year ago. All reporting Districts noted that corporate and leisure travel are expected to be up in 2015.

Real Estate and Construction

Residential real estate activity improved in the Cleveland, Richmond, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco Districts, while remaining steady in all others, except New York, which reported softening conditions. Philadelphia, Cleveland, Atlanta, and Dallas reported a slowdown in construction activity due in part to harsh weather conditions. Low-to-declining levels of inventory were cited by contacts in Boston, Philadelphia, Cleveland, Atlanta, Chicago, and San Francisco. The Chicago District reported that inventories were near historic lows, particularly for lower-priced homes. Most Districts reported a tight supply of residential real estate in most price points of the market. The Philadelphia and Cleveland Districts reported that mid- to high-priced homes were selling better, while Chicago, Kansas City, and Dallas reported that low- to mid-ranged homes were outpacing other categories in sales. Cleveland and Philadelphia reported an absence of first-time homebuyers. Contacts across the system uniformly reported that they were optimistic and many expect a greater than normal upswing in home sales with the coming of spring. The multifamily sector remains strong, with flat to declining vacancy rates reported in multiple Districts. Boston, Cleveland, and San Francisco reported a continued shortage of skilled labor, which was cited as a factor driving up wages.

Commercial real estate activity remained stable to expanding across many Districts. Boston, New York, Philadelphia, Chicago, Minneapolis, Dallas, and San Francisco all saw strong gains in industrial and office building construction. Demand for commercial properties in the city of Boston continues to be fuelled by foreign institutional investors, many of which are increasing their allocations to real estate. Contacts in Boston, Richmond, Atlanta, Minneapolis, and Dallas noted stable to strong multifamily construction. Chicago reported that leasing of industrial buildings, office and retail space all increased.

Cleveland mentioned that successful developers have easier access to credit compared to prior years, and Boston reported a slight uptick in speculative activity for commercial construction.

Banking and Finance

Banking conditions remain positive across reporting Districts. On balance, demand for credit increased at a slight to moderate rate in Philadelphia, Cleveland, Richmond, St. Louis, Kansas City, Dallas, and San Francisco. Commercial real estate loan demand was strong in Atlanta and Dallas, while contacts in Philadelphia and Kansas City described CRE lending as stable. Demand for commercial and industrial loans grew slightly in St. Louis and Kansas City, while exhibiting stronger growth in New York, Philadelphia, Cleveland, and Chicago. Bankers in Atlanta reported that C&I lending in areas linked to the energy industry slowed as a result of oil-price declines. In San Francisco, some banks are building a sizeable pipeline of pending loans and have increased interest rates a bit in order to bring demand more in line with supply. Consumer lending grew in New York, Atlanta, and Chicago but was soft in Cleveland and San Francisco. Auto lending remained strong in Atlanta, Chicago, and San Francisco. One contact in Cleveland attributed weakened bank-financed auto lending to captive-finance operations that are becoming very aggressive. Residential mortgage demand—particularly for refinancings—grew in Richmond, Chicago and Dallas and was steady in New York. Home equity line volumes fell in Philadelphia and Cleveland. Bankers in the Philadelphia and Kansas City Districts expressed confidence in the quality of their loan portfolios, while New York and Cleveland noted that delinquencies were down or remained at low levels. Richmond reported that there was some loosening of credit standards, with one lender expressing concern that credit quality was declining as a result.

Agriculture and Natural Resources

Agricultural conditions worsened slightly across reporting Districts since the previous cycle due to a variety of conditions including wet fields, persistent drought, and a cold winter. Prices for corn and soybeans fell over the reporting period in the Atlanta, Chicago, Minneapolis, and Kansas City Districts. Chicago and St. Louis reported that less corn will be planted this year, being replaced by soybeans.

Contacts in the Kansas City District noted that feeder cattle prices have improved. Contacts in Minneapolis reported turkey producers were concerned about an outbreak of an extremely virulent strain of flu that has killed thousands of birds. Input prices for the upcoming spring planting season were reported as increasing in Chicago. Drought conditions improved but still persisted in some areas of the Atlanta, Dallas, and San Francisco Districts, while wet field conditions slowed planting in parts of Richmond, Chicago, St. Louis, and Dallas. Falling pork prices were attributed to declining export demand, resulting in higher domestic supplies. Contacts in Chicago noted that beef prices remain elevated, but off their highs, due to cattle herds being rebuilt.

Reports indicated that energy market conditions declined in the Atlanta, St. Louis, Kansas City, and Dallas Districts. The number of active drilling rigs fell in Cleveland, Minneapolis, Kansas City, and Dallas. Active drilling rigs in North Dakota and Montana reached their lowest levels in five years. However, despite the decline in permits and new investment, overall production in the oil and gas sector remains strong to increasing. Oil and gas producers in the Cleveland, Atlanta, and Dallas Districts anticipate cuts in 2015 capital expenditures. Layoffs were reported in the Cleveland, Atlanta, and Kansas City Districts. Coal production declined year-over-year in the Richmond and St. Louis Districts but was mostly unchanged in Cleveland. Coal prices were reported as unchanged in the Richmond District, but declined in Cleveland. While producers are optimistic about continued production growth in oil and gas, layoffs are occurring in the industry as well as in coal.

Employment, Wages, and Prices

In most Districts, labor market conditions remained stable or continued to show modest improvement. Increases in hiring or employment levels were reported in the New York, Richmond, Atlanta, Chicago, St. Louis, and Dallas Districts. In Boston, only stronger-performing firms have made significant increases to employment levels, while payrolls in Cleveland remained generally stable. Several layoffs were announced by contacts in Minneapolis, and so changes to labor markets were described as mixed. Layoffs in the manufacturing and energy sectors were reported in multiple Districts including

Cleveland, Atlanta, Minneapolis, Kansas City, and Dallas. These reductions were primarily related to the decline in gas and oil prices and the resultant decline in upstream demand such as iron ore mining and steel manufacturing. In Chicago, skilled workers continue to be in high demand. Firms in many Districts, including Richmond, Atlanta, St. Louis, Kansas City, and Dallas, reported having difficulty finding skilled workers, especially in professional and business services and the IT sectors. The Richmond, Atlanta, and St. Louis Districts specifically noted an increasing incidence of voluntary turnover of employees.

Modest or moderate wage pressures were reported in several Districts including New York, Richmond, St. Louis, Kansas City, and San Francisco. Wage pressures in Atlanta were muted. Wage pressures in Cleveland and Chicago were more pronounced for skilled workers. However, Chicago noted that there were more reports of wage increases for unskilled workers than in the previous reporting period. Contacts in San Francisco noted some seepage of wage pressures that had been limited to higher-end jobs in urban areas into middle-tier jobs and smaller towns. In the Minneapolis District, the strong wage increases observed in the energy-producing region over the past few years have slowed, and in some cases, declined. Retail sector wages in Kansas City experienced a mild decline but are expected to grow in the coming months.

Districts generally reported stable or modestly increasing overall price levels. Prices remained generally steady in the New York, Cleveland, Minneapolis, and Dallas Districts; while prices in Philadelphia, Richmond, Kansas City, and San Francisco increased slightly. In the Chicago District, input-price declines have been putting downward pressure on manufacturing prices, while retail prices have remained mostly unchanged. Aside from on-going energy-price increases associated with limited natural gas capacity in the region and the effects of the strong dollar, non-labor costs and prices in Boston remain steady. Retailers in Dallas noted increased transportation costs due to the West Coast port strike, while firms in several Districts mentioned lower transportation costs due to lower energy prices.

FIRST DISTRICT – BOSTON

Business activity continues to expand in the First District, although contacts are not quite as upbeat as in the previous round. With a few exceptions, retailers, manufacturers, and selected business services firms report increases in revenue compared with a year earlier. For retail and manufacturing, the increases are fairly modest, while most consulting and advertising contacts cite moderate to strong results. Commercial real estate fundamentals continue to improve across most New England markets; residential real estate sales were slowed by severe winter weather, but contacts expect the effects to be temporary. Aside from ongoing energy price increases associated with limited natural gas capacity in the region and the effects of the strong dollar, contacts say non-labor costs and prices are steady. Only a few firms experiencing strong demand are doing any significant hiring; one retailer is raising its entry-level wages.

Retail and Tourism

Retailers contacted for this round report year-over-year comparable-store sales increases between 1 percent and 2 percent. A furniture store chain cites negative effects on sales in 2015:Q1 from the severe winter weather experienced in New England between late January and the first three weeks of February. Respondents say inventories are well managed and prices remain steady. One contact is raising its minimum hourly pay to remain competitive in the labor market in the wake of Walmart's well-publicized increase in minimum wages and to stay ahead of state and local regulations mandating higher minimum wages. Contacts say that consumers are generally more optimistic and that this sentiment will translate into higher 2015 sales.

The travel and tourism sector saw increased activity in January 2015 over January 2014, but lost business in late January and February because of severe winter weather. The weather conditions also had ripple effects for food suppliers, delivery workers, and wait staff. A contact estimates that restaurant revenues in the Boston area were down 30 percent to 40 percent during this period, reflecting lost traffic from corporate travelers, regional leisure travelers, and weekend business from local residents. Museums and other attractions were down 6 percent for 2015:Q1 compared to 2014:Q1. The good news is that, on balance, corporate and leisure travel is expected to be up again in 2015, leading to increases in room rates and occupancy rates in area hotels.

Manufacturing and Related Services

Eleven of twelve contacted manufacturers report higher sales than a year ago; the exception was a maker of hardwood furniture which saw an 18 percent year-over-year decline in sales. Although the firm attributes some of the weakness to this winter's severe weather, the decline prompted the permanent closing of several showrooms. For the firms reporting higher sales, increases are modest, generally in the low single digits, although several firms say sales growth would have been higher were it not for the weather, which in some cases prevented workers from getting to work and trucks from picking up shipments. For two firms, a manufacturer of postal equipment and an information services provider, small increases in sales were welcome after several quarters of declines.

Two issues emerged regarding pricing. The first is exchange rates. As was the case in the last round, most responding manufacturing firms say that the strong dollar means that profits from overseas sales are down significantly. The second pricing issue involves energy. Pipeline capacity for natural gas in the region has not kept up with increased demand in recent years, leading to increasing prices for both natural gas and electricity.

Firms do not report any significant changes in inventories or to their capital spending plans. One firm notes that the changing value of the dollar increases incentives to minimize inventories as changes in exchange rates can lead to restatements. Another firm reports that historically low interest rates in Europe have led them to finance Euro-denominated capital expenditures by borrowing in Euros; in the past, they would have financed these expenditures using their U.S. credit lines.

None of our contacts report employment cuts and only one, a pharmaceutical company, cites significant hiring. Several contacts say they are hiring "selectively" or for "critical skills." A producer of membranes cites "process engineers" as extremely difficult to find, but says other skills are not a problem.

The outlook is positive for all contacts except the furniture manufacturer whose sales declined in the first quarter.

Selected Business Services

Consulting and advertising contacts nearly unanimously cite increased revenues in the first quarter compared with last year. The exception is a government consulting firm that reports flat revenue in their core U.S. business year-over-year, but is up over the previous quarter as government agencies started awarding more contracts, albeit with less assured funding. Respondents in healthcare consulting say revenue growth is modest to strong, and all say demand is accelerating, as healthcare providers continue to seek operational performance improvements in response to implementation of the Affordable Care Act. A large marketing materials firm and small full-service advertising firm continue their moderate year-over-year revenue growth, in characteristically procyclical fashion. Strategy consultants cite robust revenue growth in the first quarter relative to a year earlier. Demand for private equity due diligence continues to grow, and strategic consulting is on the upswing as larger firms look to rebuild in the post-recession phase. Broadly, both consulting and advertising firms continue to experience strong demand growth for technology solutions and healthcare-related services.

Costs remain stable for a government consulting contact and one strategic consultant. A small advertising firm and small strategic consultant cite moderate cost increases over last year, but have been able to maintain or slightly increase margins. All other contacts report mild cost increases, mostly in the form of compensation adjustments, and most are increasing margins. The government consultant and small strategy consultant mention strong price competition.

All responding firms plan on hiring in 2015, apart from a government consultant who plans to keep personnel flat in New England this year. Most planned hiring represents modest increases in employment, except that a small advertising firm and a particularly successful healthcare consultant plan to increase their employee base “robustly.” Contacts are planning for slight to moderate pay raises over last year, although technical positions such as information technology, coding, and web development remain hard to fill and demand premiums.

Most consulting and advertising contacts express optimism about 2015 and several predict stable growth for the next three or more years. The election cycle is a common concern, as healthcare and government consulting contacts are directly affected by regulatory changes and policy decisions. A government consulting contact expresses worry about a trend of awards being granted increasingly to the lowest bidder rather than the most high-quality firm.

Commercial Real Estate

Commercial real estate fundamentals continue to improve in both Boston and Portland and are roughly flat in the Hartford area. One contact reports that office rents in Greater Boston are up an average of 7.9 percent over the year on the strength of high-demand submarkets such as Cambridge and the Seaport District. Strong sales activity for commercial properties in Boston continues to be fuelled by foreign institutional investors, many of which are increasing their allocations to real estate. Office construction increased modestly in the Boston area and includes a small, but increasing, amount of speculative activity. Multifamily construction is still increasing in metropolitan Boston but one contact says new completions may peak in 2015; construction in the hospitality and health care sectors is expected to increase in the coming year. One respondent reports that a scarcity of skilled construction workers is a nationwide problem that contributed to an increase in construction wages in excess of 20 percent in Greater Boston since 2010. In Greater Portland, two significant office buildings were sold in recent weeks at historically high prices. Also in Portland, the industrial leasing market is seeing increased demand amid limited supply and is expected to generate new construction activity moving forward. Hartford saw a weak first quarter that involved negative absorption of class A office space downtown, but one contact says the weakness reflects the harsh winter weather and likely will be reversed soon.

Residential Real Estate

Closed sales of single-family homes in February (reflecting sales under contract 30 to 60 days prior) increased year-over-year in Rhode Island, Maine, Connecticut, and Vermont, but declined in Massachusetts and New Hampshire. In Massachusetts, sales have declined year-over-year in eight of the last 10 months. Contacts attribute the decrease in sales to tight and declining inventories; only 3.4 months of supply are available in Massachusetts; supply in the Greater Boston area is at its lowest level in more than a dozen years. Contacts say zoning laws make new construction in Massachusetts difficult and assert that new listings—not very responsive to date to ongoing price increases—will not meet buyer demand. As in Massachusetts, inventory decreased in the other First District states when snowy weather buried the region. Median sales prices increased in four of the six states; Vermont saw no change in median price relative to a year ago and Connecticut saw prices decrease, possibly reflecting distressed homes, which continue to work their way through the judicial system.

Closed sales of condominiums increased in February in New Hampshire, Connecticut, and Vermont, while decreasing in Rhode Island, Massachusetts, and Maine. Condo median sales prices rose in Massachusetts, New Hampshire, Maine, and Vermont while falling in Connecticut and Rhode Island. As in the single-family home market, inventory shortages are blamed for declining sales and increasing prices in Massachusetts condominium markets, where only 2.3 months of supply are available. As for single-family homes, condominium inventories decreased in all six New England states.

Contacts expect the spring market to be strong, although starting later this year owing to the harsh weather. Respondents anticipate that new listings will rise after owners repair winter damage and express hope that low interest rates continue to bring buyers to the market.

SECOND DISTRICT--NEW YORK

Growth in the Second District's economy has slowed to a modest pace since the last report. Businesses report that selling prices remain mostly stable, while input costs rose moderately. Labor market conditions have improved slightly, on balance, in recent weeks, with scattered reports of increased wage pressures. Consumer spending has been a bit weaker, on balance, since the last report: both general merchandise retailers and auto dealers note that sales slumped in February, due largely to weather, but bounced back in March. Tourism activity has been mixed but a bit softer, on balance, while consumer confidence has slipped somewhat. Housing markets showed some signs on slowing; office markets have slackened, while the market for industrial space has continued to strengthen. Finally, banks report steady to stronger loan demand, continued narrowing in loan spreads, and lower delinquency rates across the board.

Consumer Spending

Retailers report that sales weakened substantially in February but rebounded in March. A major general merchandise chain indicates that same-store sales fell below 2014 levels in February but were well above a year ago in March. Similarly, a major retail contact in upstate New York indicates that sales weakened considerably in February but bounced back somewhat in March; a marked falloff in Canadian shoppers was attributed to the strong dollar. In both cases, the February weakness was attributed largely to harsh weather. Contacts report that selling prices have generally been stable, and that discounting remains widespread.

Auto dealers in both the Rochester and Buffalo areas report that new vehicle sales weakened substantially in February, due to unseasonably harsh winter weather, but bounced back in March. Used vehicle sales were mixed, with Buffalo-area dealers reporting weak sales but Rochester-area contacts describing sales as fairly sturdy. Auto dealers note that both wholesale and retail credit conditions remain in good shape.

Consumer confidence in the region weakened somewhat in February and was little changed in

March; still, it remains near its multi-year high, set in January. Tourism activity has slowed somewhat in recent weeks. In February, hotel occupancy rates rose above 2014 levels in Niagara Falls (NY) but fell in Buffalo; occupancy rates and room rates in New York City were also down from a year earlier. Broadway theaters report that both attendance and revenues weakened in March and were down from a year earlier.

Construction and Real Estate

The District's housing markets have been a bit softer, on balance, since the last report. New York City's apartment rental market has been steady to slightly stronger in recent weeks: rents have continued to edge higher in Manhattan and Queens and are up moderately from a year earlier, while rents in Brooklyn have been flat. One Brooklyn real estate authority notes that, while rents have stabilized in more established areas, they continue to rise in the more peripheral neighborhoods. New York City's co-op and condo market was mixed in the first quarter: in Manhattan, prices declined modestly from the elevated levels of early 2014; but in Brooklyn and Queens, prices registered sturdy gains, driven by low and declining inventories. Sales activity was down from a year ago citywide but still fairly high. Once contact attributes some of the weakness at the high end of the market—especially new development in Manhattan—to the stronger dollar.

Housing markets in areas around New York City have been generally flat. Selling prices were flat to up slightly; one New Jersey contact partly attributes the sluggish recovery in housing to a persistently high backlog of foreclosed homes. Sales activity rose modestly in Westchester and Fairfield counties but remained sluggish in northern New Jersey, reportedly hampered by weather. Harsh weather was also blamed for weakness in the Buffalo-area housing market in the first quarter.

Commercial real estate markets across the District have been mixed, with some slackening in office markets but continued tightening in industrial markets. During the first quarter of the year, office availability rates rose in the Manhattan, Long Island, and Westchester-Fairfield markets; however, rates edged down across upstate New York and were unchanged (at a high level) in northern New Jersey.

Office rents are flat to up modestly. New office construction has been robust in New York City but moribund across the rest of the District. Industrial availability rates, in contrast, have continued to trend down across most of the District, and rents have risen moderately; Long Island availability rate stabilized at a low level, with rents up 8 percent from a year ago.

Other Business Activity

Manufacturing firms report that activity weakened a bit in March, on balance. However, business contacts in most service industries report that business picked up in March, following a sluggish February. Manufacturing and service firms continue to report stable selling prices, though manufacturers note some increased pressure on input prices in recent weeks.

The labor market has been mixed in recent weeks, though there continue to be reports of increased wage pressures. Both manufacturers and service-sector firms report that they are expanding their workforce, on net, and plan to do so in the months ahead. One major New York City employment agency reports that hiring activity has picked up in recent weeks and that salaries are getting more of a lift than in recent years. This contact also notes that management consulting firms are hiring more—viewed as a good harbinger—and that IT workers are increasingly being hired by more traditional (non-technology) companies. Another major employment agency contact reports that job listings remain strong but has noticed a significant slowdown in the speed with which companies are making job offers.

Financial Developments

Small to medium sized banks in the District report steady demand for residential mortgage loans but increased demand for consumer loans, commercial mortgages, and commercial and industrial loans. Bankers continue to report that credit standards are unchanged across all loan categories. Contacts also report an ongoing decrease in spreads of loan rates over cost of funds across all loan categories—particularly in residential mortgages. Respondents report an increase in the average deposit rate. Finally, bankers note a decrease in delinquency rates across all loan categories, especially for residential mortgages.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period. Staffing firms and other general service-sector firms continued to report a moderate pace of growth; however, auto sales appear to have slowed to a modest pace of growth after adjusting for the relatively colder winter weather effects in 2014 compared with 2015. Nonauto retailers continued to report modest growth, as did the commercial real estate sectors for construction and for leasing of existing commercial properties. Manufacturers continued to report only slight growth, and brokers reported the same in regard to existing home sales. Residential builders responded with mixed reports of slower construction progress due to bad weather but also reported rising inquiries and contract signings. Reports from tourism contacts also were mixed, with late snow and cold conditions extending the ski season somewhat but limiting visitor traffic at shore destinations.

Lending volumes appeared to slow — registering only a slight pace of growth. Generally, credit quality continued to improve. As in the previous Beige Book, contacts reported slight increases in wages and home prices. Overall price levels were also up slightly, but some prices fell, as the impact of lower energy prices worked its way through the economy. Contacts continued to anticipate moderate growth of economic activity over the next six months.

Manufacturing

Overall, Third District manufacturers continued to report a slight pace of growth during the latest Beige Book period. Reports of new orders changed little from last period, but shipments fell slightly, possibly because of weather impacts. Gains in activity appeared to be stronger among the makers of industrial machinery, electronic equipment, and paper products; activity appeared weaker among the makers of primary and fabricated metal products. Producers of wood products for the home construction sector also expressed very positive comments about current activity and expected orders; one firm noted that incoming orders included more special features for the first time since the downturn, and another cited her company’s own investment in three new $450,000 trucks.

Expectations of growth during the next six months remained positive at levels typical for an expansionary period. Some firms continued to note greater uncertainty due to anticipated weak demand from customers serving the energy production sectors; however, few have noted direct reductions yet. Firms reported slight decreases in their expectations of future employment and capital expenditures. These shifts were driven by fewer firms reporting expected hiring and by more firms reporting decreases in future spending.

Retail

Actual growth estimates of nonauto retail sales (year over year) were reasonably strong, according to Third District contacts. However, after adjusting these data for effects of harsh weather on 2014 sales, nonauto retail sales appear to have continued growing modestly. Operators of malls, outlet malls, and convenience stores agreed that lower energy prices were also boosting sales; one contact indicated that consumers had more discretionary income from energy savings at home and at the pump. According to contacts, consumers remain focused on low prices; thus, retailers continue to compete with heavy promotions and to experience very tight margins. Contacts continued to expect modest growth throughout 2015.

Auto dealers reported modest growth in sales year over year — lower than last period. As with general retail sales, auto sales growth was higher year over year, until adjusting for the severe winter weather last year and for one fewer sales weekend in March 2015. Pennsylvania dealers reported that March 2014 had benefited from a rebound off of low February sales due to heavy snows. This year’s bleak winter weather continued into March, thereby limiting the normal rise in sales from February to March. Similarly, New Jersey dealers anticipated higher sales in March than in February, but they were far below last year’s tally. Auto dealers remained optimistic for overall growth in 2015.

Finance

Third District financial firms have reported only slight overall increases in total loan volume since the previous Beige Book. Volumes continued to decrease seasonally for credit card lines, as consumers paid down their post-holiday debt; similarly, volumes of home equity lines fell. Strong growth was reported for commercial and industrial lending, while mortgages, commercial real estate loans, and auto loans grew little, if at all. On a year-over-year basis, loans secured by real estate were up slightly while most other loans were up modestly. Banking contacts generally expressed growing confidence in the quality of their loan portfolios and in their customers' balance sheets. Furthermore, contacts described growing confidence and stability in the consumer market. On the business side, contacts reported some increased hiring and a growing readiness for greater investment in expanding new capacity and/or new businesses. Contacts are generally optimistic for continued growth prospects in 2015.

Real Estate and Construction

Third District homebuilders reported that winter weather slowed some work in progress and delayed some starts, but that traffic, inquiries, and contract signings showed improvements at times during February and March. Overall, conditions remained mixed with little overall growth. Homebuilders continued to report an absence of first-time homebuyers; most sales were made to higher-income, move-up buyers. Builders are still expecting a little growth in 2015. Brokers reported that existing home sales were slightly greater in February on a year-over-year basis throughout most of the larger urbanized areas of the Third District, including the Jersey shore. The winter weather a year ago kept last year's numbers low; however, this past winter was only somewhat better for touring homes on weekends. A broker in the Greater Philadelphia area indicated that the market appears to be picking up momentum in March with pending sales up by double-digits year over year. There is still a lack of inventory at the fastest-selling price points, while high-priced homes tend to linger on the market. Overall, prices are rising slightly. Brokers remained hopeful for greater growth in 2015.

Nonresidential real estate contacts reported little change to the modest pace of construction and leasing activity. New construction continued to be dominated by projects in downtown Allentown and Philadelphia that include office, retail, and residential components. Throughout the Third District, industrial/warehouse projects, public infrastructure, and suburban office renovations remain active and in demand. Design and renovations to improve energy-efficiency are also in demand. Contacts attributed a little continued rent pressure on office space to some emerging employment growth. Demand and rent pressures are greatest in downtown and suburban Philadelphia, especially for Class A or better office space. Center City Philadelphia residential and retail markets, as well as several select suburban office markets, also continued to be active. Contacts remained optimistic for the ongoing growth of both new construction and leasing activity in 2015.

Services

Third District service-sector firms have continued to report moderate growth in activity since the previous Beige Book. About half of all firms continued to report increases in new orders and sales, but, this time, somewhat more firms reported decreases in new orders and sales. Several large services firms reported steady, moderate growth. For these firms, the year was off to a good start with no long weather disruptions and somewhat lower costs. A central Pennsylvania staffing contact reported that his firm was very busy and that the area unemployment rate was very low. The contact also reported that there were more open positions than people unemployed. Several service-sector firms reported little or no wage pressure. Among all service-sector contacts, nearly three-fourths reported expectations that growth trends for their firms will remain positive over the next six months; none anticipated declines.

Third District tourist areas reported mixed conditions as the winter drew to a close. The added snow and cold extended the ski season a little, but conditions were too harsh to attract extra visitors along the shore. However, contacts up and down the shore have reported very strong early bookings for the summer season, with many weekends booked up. After a one-month anomalous increase in January, revenue results for Atlantic City casinos resumed the old patter of double-digit declines in February.

Prices and Wages

More Third District contacts reported price decreases than are typical; however, the overall price level has continued to increase slightly since the previous Beige Book period. Manufacturing contacts reported slight decreases in the prices they pay and the prices received for their products since the prior period. The number of firms noting increases remained the same, while the number of firms noting decreases rose significantly. Among nonmanufacturing firms, a somewhat higher percentage of contacts reported increases of prices paid since the prior period, and a somewhat greater percentage reported decreases of prices received; the overall indexes for prices paid and for prices received remained positive. Most contacts, including those from staffing firms, continued to note little significant change in wage pressures. One contact reported that retailers generally plan to hire at the same levels as last summer with no wage increases.

FOURTH DISTRICT – CLEVELAND

On balance, the economy in the Fourth District expanded at a slight pace during the past six weeks. Activity at manufacturing plants was mixed. In residential real estate markets, unit volumes and single-family home prices rose; nonresidential construction fell below levels seen during the prior few months. Retailers and auto dealers reported marginally higher sales than a year ago. Spending for new drilling in the Marcellus and Utica Shales has been significantly curtailed. Freight volumes were lower due primarily to the effects of lingering cold weather and West Coast labor disputes. The demand for business credit continued to slowly move higher, while demand for consumer credit softened.

Payrolls were little changed on net, although construction contractors expect brisk hiring in the second quarter. Bankers are expanding payrolls in the areas of risk management and commercial lending. Staffing firms reported a pick-up in the number of job openings and placements in the health care, IT, and manufacturing industries. Upward pressure on wages is limited to experienced and technically skilled personnel in construction and freight hauling. Overall, input and finished goods prices were steady. We heard reports about declines in prices for agricultural commodities, oil, and steel, and rising prices for some building materials.

Manufacturing

Factory contacts reported mixed activity during the past six weeks. Suppliers to the aerospace, motor vehicle, and construction industries continue to see strong or strengthening demand. Some producers of consumer products reported that new orders are slowly rising. Manufacturers experiencing weakening demand attributed it to a retrenchment in the oil and gas industry and a strengthening dollar. On balance, our contacts are less bullish about near-term business prospects compared to earlier in the first quarter. Factors tempering growth expectations include exposure to foreign markets and uncertainty about the direction of oil and gas prices. Reports from steel producers indicate that the industry’s downturn may be waning. One contact noted that demand from the construction sector is starting to pick up. Another said that demand for tubular products from oil and gas customers is still particularly weak, although inventory is slowly being absorbed. Price pressures affecting steel that are associated with the downturn in oil prices and the rising dollar have been significant, but some contacts believe the pressures are close to bottoming out. Year-to-date auto production at District assembly plants fell almost 7 percent.

Capital spending remained on plan for the most part. Deviations were in response to changes in customer demand—higher or lower. Monies were allocated primarily for maintenance and new equipment. Aerospace suppliers are increasing their R&D budgets. Raw material prices declined, particularly for agricultural commodities, oil, petroleum-based products, and steel. Producers were reluctant to pass through lower input prices to customers. On balance, manufacturing payrolls were steady.

Real Estate and Construction

Year-to-date sales through February of new and existing single-family homes rose 3 percent compared to the same time period in 2014. The average sales price was about 6 percent higher. Construction starts were down slightly. Homebuilders reported that business traditionally begins to pick up late in the first quarter, and March sales matched their expectations. New-home contracts were concentrated in the move-up price-point categories; prices increased recently due to higher land and labor costs and lower existing-home inventory. Several builders commented that their spec-home inventory is at a low level, which they attributed to capacity issues and difficulty in obtaining construction financing. Homebuilders remain optimistic. They believe the potential for higher interest rates might serve as an impetus for potential buyers to sign a purchase contract.

Several general contractors reported a slowing in nonresidential construction due to lingering cold weather. Nonetheless, inquiries have been coming in at a steady pace, and backlogs were characterized as normal. Demand is greatest in commercial building, healthcare, higher education, and public infrastructure. Credit is more readily available to successful developers than it has been over the past few years. Capital spending by general contractors was mainly for technology, new equipment, and maintenance. Our contacts, while optimistic about short-term growth prospects, are concerned about potential labor shortages.

Materials prices were stable apart from increases for concrete, drywall, and finished wood products. Diesel fuel and structural steel prices were lower. Payroll growth remained flat due to the harsh winter weather. As the spring season progresses, general contractors expect a period of fairly robust hiring, including craft workers, project engineers, and managers. Wage pressure is building across the industry. Subcontractors are busy, and they are pushing through rate increases to cover rising costs, including for labor, and to widen margins.

Consumer Spending

On net, retail sales were flat during the past six weeks when compared to the post-holiday period. Same-store revenues were marginally better than a year ago, which contacts attributed to the winter weather being less harsh this year. Two retail chains reported that their revenues were adversely affected by labor disputes at California ports. Product lines in highest demand included women’s apparel and health and wellness products. Contacts are hopeful that lower gasoline prices will have a greater impact on consumer spending, which would help boost second-quarter sales to levels above those in 2014. Vendor and shelf prices were steady. Beef prices have fallen from historic highs but remain elevated. Retailer’s capital spending was mainly for updating existing stores, and their payrolls were flat.

Year-to-date new motor vehicle sales through February were slightly higher than those of a year ago. Sales began to pick up in March with the warmer weather. One contact reported that consumer preferences have been shifting from cars to SUVs and trucks, which is boosting transaction prices for dealers and margins for manufacturers. Looking at 2015, dealers expect sales will remain strong, but they believe that total domestic sales will flatten out at 2014 levels. New inventory is slightly elevated due to February’s lower unit volume. Used vehicle transactions showed a modest increase over last year. Dealers are starting to hire seasonal sales personnel, while service departments are feeling wage pressures due to a lack of qualified mechanics.

Banking

Bankers reported that their business-loan-portfolio growth was flat to moderate. Any easing in demand was attributed to seasonal factors and the weather. Credit applications were strongest for C&I loans and multifamily-construction financing. Consumer credit demand softened. A regional banker reported that he has not seen a pass through of savings due to lower gasoline prices to higher consumer spending or loan applications. However, his core deposits grew about 8 percent year-over-year across a broad set of consumer accounts. Direct auto lending has softened at some banks, as captive-finance operations are becoming very aggressive in financing new car purchases. Several bankers reported flat to declining balances on home equity products. Many of our contacts noted a slowing in their residential mortgage business, which was attributed to the weather and a dwindling inventory of homes. Refinancing activity was down. Delinquency rates held steady, at very low levels, and bankers expect little change going forward. No changes were made to loan-application standards. Capital spending by banks was primarily for technology, including cyber security, and branch maintenance. Payrolls expanded, on net. Hiring was for jobs in commercial lending and risk management.

Energy

Little change in District coal production was reported. Spot prices for metallurgical and steam coal declined since our last report. Shale gas activity was mixed. While drilling has been curtailed—the number of drilling rigs across the District declined 25 percent since mid-December—production remains at high levels. One industry executive reported that even with the current low prices for oil and natural gas, there is still a lot of industry optimism surrounding the Marcellus and Utica Shales. Capital spending has been pulled back, especially by upstream companies. One contact reported that his firm has cut its capital budget by 40 percent year-over-year. Pricing for materials and equipment was flat to down. Layoffs by oil and gas companies and their supplier industries were reported.

Freight Transportation

Freight volumes declined since our last report. Contributing factors include the harsh winter weather that lingered into early March and fallout from the labor dispute lessening shipments from the California ports. Our contacts reported that with improving weather conditions, volumes are slowly returning to the high levels seen late last year, though the effects of the labor dispute are expected to persist for several quarters. Little change in costs was noted other than the downward trend for diesel fuel and petroleum products. In a few cases, fuel surcharges were lowered. A strong pricing environment was attributed primarily to capacity issues. Capital spending in 2015 is projected to be strong. Several carriers decided to order replacement equipment earlier in the year than originally anticipated. Some reports indicated that monies are being allocated for footprint expansion—terminals, aftermarket parts production, and service facilities. Hiring is for replacement and to add capacity. Difficulty in attracting and retaining drivers and maintenance technicians is putting significant upward pressure on wages for both job categories.

FIFTH DISTRICT–RICHMOND

Overview

Outside of manufacturing, the Fifth District economy grew at a moderately faster pace in the weeks since the previous Beige Book. In manufacturing, shipments and new orders fell as winter weather forced shutdowns. Retail sales rose at a slower pace. However, revenue growth increased moderately at non-retail services firms, along with stronger tourism activity. Loan demand grew modestly. Residential and commercial real estate markets also continued to strengthen. Agricultural contacts reported seasonal increases in activity. Labor markets generally improved.

According to the most recent surveys, manufacturing and service sector employment rose at a slightly faster pace since the previous Beige Book report. Average wages in the manufacturing sector continued to rise at a tepid pace, and in the service sector, wage growth moderated somewhat. Manufacturing prices paid and prices received rose slightly faster. Retail prices increased more quickly and price increases in the non-retail service sector remained mild. Energy prices softened.

Manufacturing

District manufacturing contracted since the previous report. Shipments and new orders fell, while inventories of finished goods and raw materials rose somewhat faster in recent weeks. Several manufacturers attributed the decline in activity to adverse weather. A food manufacturer in North Carolina reported plant shutdowns and a textile manufacturer scaled back production due to a shortage of electric power during the cold weather. In contrast, a specialty producer of heavy construction products reported steady shipments despite a “rough winter.” A few manufacturers noted delays in receiving components coming through the West Coast ports as a result of dockworker issues. Prices paid and prices received rose slightly faster than in the prior report.

Ports

District port officials reported stronger volumes in the weeks since our last report. One port had to briefly close to intermodal traffic during a winter storm. Diversions from the West Coast added to volume, such as a sharp rise in imports of retail products destined for the Ohio valley and grain exports from the Midwest. New contracts for West Coast dockworkers are expected to lead to reduced congestion at District ports. Coal exports continued to decline, while auto exports and imports remained strong.

Retail

Retail sales rose at a slower pace since our previous report. Sales were down, according to various merchants, including an appliance store executive, a hobby shop manager, and a gas station owner. However, retailers of construction materials and home and garden suppliers reported strong revenue growth. The manager at a discount department store said sales were meeting planned levels. Sales of cars and light trucks were "pretty good," according to a dealer in the Washington beltway area. Retail prices rose somewhat faster since the prior report. A large food supplier remarked that beef prices rose to an elevated level, while pork and poultry prices fell to very low levels.

Services

Services firms reported moderate revenue growth since the previous report. Sales were especially strong for accounting services, telecommunications, and cybersecurity firms. An executive at a healthcare organization said demand for services has been very high for several months, with no sign of abating. A financial services executive reported that clients are feeling better about the economy and have increased the risk levels in their portfolios. A contact at national trucking firm located in the District indicated little change in business activity, but expected stronger conditions in the second quarter. Prices at services firms rose at nearly the same rate as in our previous report.

Contacts in the tourism industry reported stronger group bookings in recent weeks. A large increase in group bookings more than offset a decline in the leisure category, according to a Virginia hotel manager, and capital spending rose at the resort. An executive at a North Carolina hotel reported that convention and group business increased year-over-year and he expected strong summer bookings despite new competition in his region. A South Carolina hotelier also reported a significant year-over-year increase in occupancy and a North Carolina hotel manager reported strong revenue growth supported in good measure by military and corporate bookings. In western Virginia, a resort hotel manager said this winter's revenues were above the record-setting revenues of a year ago, in part due to extended cold weather. As a result, the resort has been able to start new capital projects. A tourism executive on the outer banks of North Carolina said weekends have been strong since our previous report, with big events and good weather helping to draw tourists. In addition, construction of large rental properties has recently increased in that location. Room rates and rental rates were mostly unchanged, according to our contacts.

Finance

Loan demand rose modestly since our previous Beige Book. Residential mortgage demand increased in Maryland, South Carolina, and Virginia. Growth in residential mortgage lending in Maryland and Virginia was largely attributed to increased refinancing activity. In North Carolina, loan demand was reported to be soft; however, a lender in Charlotte expected a robust spring buying season due to pent-up demand. Commercial lending also picked up in Maryland, South Carolina, and Virginia. A banker in Maryland noted an increase in requests to finance the purchases of commercial properties by the current tenants of those properties. Also, a North Carolina CFO said that most new speculative building was being funded with private equity rather than with bank loans. Competition among banks remained high throughout the District. A lender in High Point, North Carolina said that larger banks have started to compete more directly against local community banks for real estate loans. Contacts throughout the District noted some loosening of credit standards and a lender in Maryland expressed concern that credit quality was declining as a result.

Real Estate

Activity in residential real estate continued to increase modestly since our prior Beige Book. Sales increased in Washington, D.C., North Carolina, and South Carolina. A Realtor in D.C. noted a slight increase overall, with a significant rise in the number of sales of high-end homes. Additionally, several contacts throughout the District expressed optimism about housing conditions normalizing and pent-up demand being released in the spring. A Richmond contact remarked that the real estate market seems a little tighter in the mid-range market, while a lot of inventory exists on the high end. On the other hand, a Baltimore-area Realtor commented that he had "not seen any movement in the past 30 days." Also, a Maryland executive said that demand softened for new construction homes. Average days on the market varied. For instance, the number of days rose in Washington, D.C. but fell in North Carolina. Inventories decreased in the Carolinas and were unchanged in D.C. but remained at historically low levels. Lot sales increased in North Carolina, along with speculative home building projects. An executive in South Carolina said lot prices increased and might hinder transactions.

Commercial real estate activity increased moderately since our previous Beige Book. Retail leasing rose in Virginia, primarily driven by demand for restaurant space, value fashion stores, and food stores. A Maryland contact reported that retail space in grocery-anchored locations has commanded higher rents. Demand in the District has picked up for health care space, executive offices, and residential real estate offices. In Maryland, stronger demand was largely driven by government contractors. According to a Realtor in Virginia, vacancy rates for retail space declined while office vacancy rates increased slightly as tenants formerly in large spaces moved to smaller spaces. Another Virginia Realtor said that limited new commercial space had come online, keeping vacancies stable to slightly lower. In North Carolina, vacancy rates decreased for retail, office, and industrial spaces. Throughout the District, there was new construction of multi-family residential buildings, hotels, and medical centers. A South Carolina contact cited concerns of some overheating in 1-4 unit multi-family development. A Virginia Realtor said that new apartment supply continues to be absorbed, with new projects continuing in Norfolk and Richmond.

Agriculture and Natural Resources

Since our previous Beige Book, agriculture contacts in the District reported seasonal increases in activity, although adverse weather was causing some disruptions. Orders increased for sod, trees, and shrubs; however, wet weather delayed harvesting to fulfill those orders. A farmer in South Carolina said that the ground was too wet to plant anything right now, potentially reducing crop yields in the fall. Crop prices were unchanged for sod, trees, and shrubs, and prices remained low for corn, cotton, wheat, soybeans, and peanuts.

Coal production increased slightly since our previous report, largely due to the effects of harsh winter weather on coal demand; however, production was lower than in the same period last year. Coal prices were unchanged since our last Beige Book. Production of natural gas decreased slightly in response to prices, which remained historically low, except for a brief spike in prices due to the cold weather.

Labor Markets

The demand for labor generally increased since our previous Beige Book. Positions were recently added in banking, manufacturing, engineering, health services, IT, transportation, and agriculture. Demand picked up for skilled manufacturing workers, managers and supervisors, and high-level IT and biotechnology professionals. Increased turnover was also widely reported in the District. A Maryland executive and two large companies in North Carolina reported increased turnover due to employee willingness to look for other opportunities. Difficulties finding employees were reported in banking, trucking, and biotech. Conversely, large manufacturers in North Carolina said they were having fewer problems finding workers due to partnerships with local universities and trade schools. Recently, upward wage pressures broadened slightly according to several District contacts, including for IT workers, accountants, and bankers. However, a northern Virginia executive said that downward wage pressures persisted in the defense and aerospace industries. According to our most recent surveys, manufacturing employment grew marginally and average wages increased modestly. In the service sector, hiring rose slightly while wage growth moderated.

SIXTH DISTRICT – ATLANTA

Economic conditions in the Sixth District continued to improve at a steady pace from mid-February through March, according to business contacts. The majority of firms report a positive outlook for growth over the next three to six months.

Retailers from areas affected by the severe winter weather indicated sales grew at a slower pace than during the previous period. On balance, automobile sales remained steady. Hospitality reports were mixed with some areas experiencing strong activity while other regions saw a slowdown due to the weather. Residential real estate brokers and builders reported both existing and new home sales were flat to slightly up from a year ago. Brokers indicated inventories were down, while builders cited levels that were flat to slightly up. Most contacts noted modest home price appreciation. Demand for commercial real estate continued to improve and construction increased from the year-ago level **across** most of the District. Manufacturers witnessed solid growth in new orders and production. Bankers reported improvements in overall lending activity. Businesses continued to add to payrolls. Firms noted muted wage pressures and low material costs.

Consumer Spending and Tourism

Retailers in parts of the District experienced a slight slowdown in the pace of growth from mid-February through March as severe winter weather dampened overall sales results. Apparel merchants were negatively impacted because winter clothing had already been replaced by spring merchandise. Motor vehicle sales softened due to the weather as well; however, automotive dealers noted that continued lower fuel prices prompted some buyers to purchase larger vehicles. On balance, the outlook among contacts remains positive.

Reports on tourism and business travel remained mostly positive. Florida and Louisiana reported high occupancy numbers at hotels and resorts, while Georgia, Tennessee, and Alabama indicated that activity was slower than anticipated due to the adverse weather. Contacts cited lower gas prices as a contributing factor to a rise in visitors to drive-to destinations. The outlook remains optimistic as advanced bookings in the hotel and conference segments remain strong for the second quarter.

Real Estate and Construction

Since the last report, District brokers continued to note improvements in existing home sales activity. Many contacts reported that home sales were flat to up slightly compared with the year earlier level, although some brokers found that sales were weaker than expected due to the weather. The majority of brokers indicated that inventory levels had fallen from the prior year's level and noted that buyer traffic was flat to slightly up compared with a year earlier. Brokers continued to cite modest home price appreciation. They also expect home sales to increase over the next three months.

Incoming signals from District homebuilders were somewhat mixed. Most builders characterized construction as flat to down slightly from the year-ago level. New home sales were described as flat to slightly up from a year earlier. However, similar to brokers, some builders reported weak new home sales due to the weather. Most builders indicated that their inventory of unsold homes was flat to slightly up from a year ago and noted that buyer traffic was flat to slightly down compared with the year-earlier level. Despite the mixed report on activity, most builders cited some degree of home price appreciation. The outlook among builders for new home sales and construction over the next three months remained positive, with the majority indicating that they expect activity to increase modestly.

District commercial real estate brokers remarked that demand continued to improve, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Commercial contractors indicated that nonresidential construction had increased from the year-ago level across the District and noted that the strength in apartment construction persisted. Most contacts reported a backlog that was greater than their year earlier level. The outlook among District commercial real estate contacts remains optimistic.

Manufacturing and Transportation

District manufacturers indicated that business activity expanded from mid-February through March, continuing the trend described in the last report. Contacts witnessed increased employment levels with solid growth in new orders and production. Supplier delivery times and finished inventories rose slightly, while commodity prices remained low. Optimism regarding the outlook waned slightly since the previous report as a little less than half of purchasing agents polled expecting production levels to be high over the next three to six months.

Reports on transportation activity were mixed. Contacts at East Coast ports cited significant upticks in cargo volumes as shipments were redirected away from the West Coast due to months of labor disputes that resulted in heavy congestion and substantial backlogs. District trucking companies indicated the need to expand capacity, reflecting solid year-over-year increases in demand for freight services. Railroad cargo traffic, however, was described as flat to only slightly up compared with year earlier levels. Double-digit increases in the movement of petroleum products, aggregates, and metallic ores were noted, though volumes of phosphates and iron and steel scrap continued to decline. The majority of logistic contacts anticipate higher growth for the year.

Banking and Finance

Credit conditions were largely unchanged from the previous reporting period. Credit remained readily available for qualified borrowers. Loan activity was strongest in commercial real estate. Auto lending continued to be solid. Bankers noted small business lending grew in anticipation of rising rates. Commercial and industrial lending in areas linked to the energy industry slowed as a result of oil price declines. Community banks noted increased lending activity and an increase in consumer debt. Bankers were optimistic that overall loan and deposit growth would be strong this year.

Employment and Prices

On balance, businesses reported that they added to payrolls from mid-February through March. However, contacts continued to note difficulty filling a growing list of skilled and professional positions, in some cases causing firms to put projects on hold or turn down work. Increasing turnover was also described as a challenge, putting some firms in a continuous hiring mode. Layoffs were reported in areas with heavy ties to energy exploration; however, the situation has provided some relief to firms that compete with the energy industry for workers.

Outside of high-demand and specialized skill positions, wage pressures were subdued. Though most consumers continued to have very little tolerance for nominal price increases, lower costs for oil and some raw materials have helped to boost margins for commodity and transportation-dependent firms. According to the Atlanta Fed's survey on business inflation expectations, firms' unit costs were up 1.5 percent on a year-over-year basis. Looking forward, survey respondents indicated that they expected unit costs to rise 1.7 percent over the coming 12 months, consistent with the previous report.

Natural Resources and Agriculture

Energy investment slowed in the region due to declining oil and natural gas prices. Contacts cited delays and cancellations of efforts not already underway, including industrial construction and exploration and production projects. Contacts also shared that although drilling permits for new oil wells declined in the region, production levels continued to rise. Consequently, development of storage infrastructure, such as tanks, vessels, and pipelines, increased as crude oil storage inventory levels continued to build across the Gulf Coast. The petrochemical industry, on the other hand, experienced growth due to low energy prices, and utility contacts described increased industrial power activity, which returned to pre-recession levels. On balance, energy industry contacts indicated that 2015 growth expectations were reduced and employee layoffs were imminent.

Strong global demand for poultry coupled with lower corn and soy feed prices allowed District producers to experience favorable margins. Land rents were reported to be down from last year due to low commodity prices. The most recent USDA forecast for Florida orange production was down from their previous forecast. Dry conditions were reported in much of Alabama, extreme northern Georgia, the panhandle and southern tip of Florida, as well as the southern portions of Mississippi and Louisiana.

SEVENTH DISTRICT—CHICAGO

Summary

Growth in economic activity in the Seventh District remained moderate in March, and contacts expected growth to continue at a similar pace over the next six to twelve months. Consumer spending, business spending, and manufacturing production all grew moderately, while construction and real estate activity increased modestly. Credit conditions improved some. Cost pressures were generally little changed, although there were declines in some nonfarm raw materials prices. Prices of most agricultural commodities also fell.

Consumer spending

Growth in consumer spending remained moderate in March. Retail contacts reported slower spending early in the reporting period due in part to unseasonably cold weather, but spending recovered by the end of March. Non-auto retail sales increased modestly, with stronger growth in the home improvement, household goods and appliances, recreational equipment, sporting goods, and specialty gift sectors, and slower growth in the apparel and food and beverage sectors. In contrast, new and used vehicle sales increased substantially. Lower gas prices continued to promote the shift from cars to light trucks and SUVs. Contacts also noted continued strength in demand for recreational vehicles.

Business spending

Growth in business spending picked up to a moderate pace. Most manufacturers and retailers continued to report comfortable inventory levels. Exceptions included steel service center inventories, which one contact noted were “bursting at the seams” after a surge in imports at the end of last year, and some auto dealers, who reported lean light truck inventories because of greater-than-expected demand. The pace of current capital spending picked up somewhat and plans for the next six to twelve months continued to indicate steady growth in these expenditures. Outlays were again primarily for replacing industrial and IT equipment, though many contacts also reported spending for capacity expansion. Employment grew at a moderate pace and contacts expect this pace to continue through the rest of the year. A staffing firm reported steady demand for its services. In contrast, some manufacturers facing weaker demand reported cutting back on hours. Contacts continued to indicate that demand was strongest for skilled workers, particularly for those in professional and technical occupations and skilled manufacturing and building trades.

Construction and real estate

Construction and real estate activity increased modestly in March. Demand for residential construction grew slightly, with contacts reporting some new development in suburban areas. Sales of single-family homes also picked up, and contacts expected that buyer demand would continue to improve throughout the year. Home prices increased, residential rents held steady, and housing inventories remained near historic lows, particularly for the bottom end of the market. Contacts noted continued improvement in markets in low-income communities as real estate valuations and retail activity both increased. Nonresidential construction activity ticked up, driven in large part by demand for industrial buildings. Low interest rates supported a modest expansion in commercial real estate activity. Leasing of industrial buildings, office space, and retail space all increased and rents rose.

Manufacturing

Manufacturing production continued to grow at a moderate pace in March. The auto industry remained a source of strength for the District, with contacts again citing improvements in the labor market and low gasoline prices as bolstering demand. Growth in the aerospace industry was also strong. Capacity utilization in the steel industry decreased, as elevated service center inventories weighed on steel production. Most specialty metals manufacturers reported gains in new orders and solid order books, with the exception of those supplying the oil and gas industry. Contacts also noted that the strong dollar was increasing import competition. Sales of heavy trucks and machinery both grew slowly, with demand for agricultural and mining equipment remaining weak. Manufacturers of construction industry equipment and supplies expect steady growth in 2015.

Banking/finance

Credit conditions improved some over the reporting period. Financial market volatility stabilized and credit spreads declined slightly. Banking contacts noted an increase in business loan demand and an uptick in credit line utilization, especially from middle market and large corporate firms. Loans for owner-occupied real estate and equipment financing were significant sources of growth. Consumer loan demand also grew steadily. Low rates continued to spur mortgage activity, particularly for refinancing. Auto loan demand remained strong, with contacts noting continued strong competition for prime and super prime auto loans.

Prices/costs

Overall, cost pressures were little changed in March. Energy prices were up slightly, but remained low. Steel and other primary metals prices declined, but contacts did not expect much further change in prices one way or the other in the near term. Some manufacturers reported that the decline in input prices created downward pressure on their prices. Retail prices were little changed. Most food prices declined slightly, with the exception of meat and dairy. Promotional activity at non-auto retailers increased slightly, while auto dealer incentives were little changed. Wage pressures increased slightly, while non-wage costs declined a bit as lower raw material costs outweighed increases in the cost of benefits. Wage pressures continued to be more pronounced for skilled workers than for unskilled workers, although there were more reports of wage increases for unskilled workers than in the previous reporting period.

Agriculture

High stocks of corn and soybeans and slower export growth put downward pressure on most crop prices. Stockpiles of crops from last year’s good harvest started moving for sale amid concern about low future prices. Wet fields in some areas and a cold winter have prevented most fieldwork from beginning. Still, generally favorable conditions should allow rapid planting once temperatures rise. Although higher input costs were encouraging farmers to shift some acreage from corn to soybeans, corn still looks profitable in some parts of the District, and many farmers continued to prefer their normal crop rotations. Higher output of milk has put downward pressure on prices, leading many farmers to lock them in anticipation of possible further declines. Hog prices fell because so many were brought to market, while cattle prices were up as herds are being rebuilt.

EIGHTH DISTRICT—ST. LOUIS

Summary

Economic activity in the Eighth District has increased at a modest pace since the previous Beige Book. Recent reports of planned activity have been mixed. On net, reports from the manufacturing sector have been negative and reports from the service sector have been positive. Overall residential real estate market conditions continue to improve in most parts of the District, while conditions in the commercial and industrial real estate markets and construction have been mixed. Total lending at a sample of small and midsized District banks has increased modestly since the first of the year. Finally, plantings are off to a very slow start in southern District states due to wet weather conditions.

Consumer Spending

Retail and restaurant sales grew moderately in the Eighth District during the reporting period. Several retailers throughout the District reported growth in year-over-year sales. Multiple retailers expect sales growth will continue throughout 2015. A major sporting goods retailer is slated to open a megastore in Memphis in the upcoming months. Several restaurant owners cite growing consumer demand as their reason for expanding their business. Openings were announced throughout the District in the retail, grocery, discount store, and apparel sectors. Contacts in Louisville report growing tourism activity related to convention center bookings.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been negative on net since our previous report. Manufacturing companies in furniture, transportation equipment, and plastics and rubber products reported plans to add workers, expand operations, and/or open new facilities in the District. However, large layoffs were reported in the primary metals and chemicals sectors. News from food manufacturers was mixed, with District firms reporting both positive and negative outlooks for hiring. Reports of hiring plans in the District's service sector generally have been positive since the previous report. Firms that provide warehousing, storage, health care, social assistance, and business support services reported new hiring and expansion plans in District states. In contrast, several firms in air transportation, truck transportation, and advertising services plan to lay off employees.

Real Estate and Construction

Residential activity continues to improve in most parts of the District. Home sales increased in the Eighth District on a year-over-year basis. Compared with the same period in 2014, February monthly home sales were up 13 percent in Little Rock, 15 percent in St. Louis, and just under 1 percent in Louisville. Monthly home sales declined 6.5 percent in Memphis compared with one year ago. Residential construction in February decreased in the majority of the District’s metro areas on a year-over-year basis. Compared with the same period in 2014, February monthly single-family building permits increased 10 percent in Louisville, 21 percent in Little Rock, and 11 percent in St. Louis. Permits decreased 7 percent in Memphis.

Commercial and industrial real estate activity was mixed throughout most of the District. Contacts in Memphis reported little to no available industrial real estate space in West Memphis, but plenty of available space in Memphis and northern Mississippi. A hotel in downtown St. Louis will be closing in May. Contacts in Little Rock reported stable occupancy in downtown Little Rock, but no significant new office space construction. There are multiple industrial construction projects in the works in Louisville, including plans for two new automotive supplier facilities. Contacts in Memphis reported continued activity in the grocery chains sector; ground just broke for a major store in DeSoto County, Mississippi. A new office building will break ground in Chesterfield, Missouri, later this year. A major grocery store chain is moving forward with plans to build a warehouse in Springdale, Arkansas.

Banking and Finance

Total loans outstanding at a sample of small and midsized District banks increased 1.2 percent from the end of December to mid-March. Real estate lending, which now accounts for 71.5 percent of total loans, decreased 0.2 percent over the period. Commercial and industrial loans, now accounting for 16.0 percent of total loans, increased 1.5 percent over the period. Loans to individuals, now accounting for 5.0 percent of total loans, decreased 0.5 percent over the period. All other loans, which now account for 7.4 percent of total loans, increased 1.6 percent over the period. Total deposits at these banks increased 2.4 percent over the period.

Agriculture and Natural Resources

District farmers will plant fewer acres of corn and cotton this year than in 2014. In lieu of cotton and corn, District farmers will plant more acres of soybeans and notably more sorghum. Arkansas and Mississippi farmers are significantly behind in their corn plantings as of late March due to very wet conditions. Persistent wet conditions may motivate farmers to switch additional plantings of corn to soybeans due to a later sowing window for soybeans. A rancher in western Arkansas also noted that the ground is wetter than it has been in over 25 years. District coal production for February was about 7.5 percent lower than in February 2014. The overall decline was driven by decreased production in Illinois, Indiana, and western Kentucky.

Employment, Wages, and Prices

Anecdotal information suggests that employment growth is modest and wage pressures remain moderate in the District. Most new jobs have been announced in the retail and service sectors, while layoffs have been announced in the manufacturing sector. A manufacturing contact in Little Rock suggested that it has become increasingly difficult to hire and keep quality staff. Construction industry contacts in Louisville and St. Louis noted difficulties finding qualified workers. Transportation industry contacts continue to note that wages for employees with critical skills are increasing faster than wages for other positions.

NINTH DISTRICT—MINNEAPOLIS

The Ninth District economy grew moderately overall since the previous report. Increased activity was noted in consumer spending, commercial and residential construction and real estate, and professional services. Activity was flat in manufacturing and tourism, while activity decreased in energy and mining and in agriculture. Labor markets were mixed, as a number of layoffs were noted since the previous report. Overall wage increases were moderate, and prices generally remained level.

Consumer Spending and Tourism

Consumer spending increased moderately. In Minnesota, a mall reported sales up 10 percent in February compared with a year earlier, while another mall noted that sales during the first quarter were level with a year ago and that traffic was up slightly. Sales and traffic during the first quarter were ahead of last year at a mall in Montana. A retailer in Minnesota expects same-store sales to grow 2 percent during the three-month period ended in April compared with a year ago. An auto dealer in Minnesota reported that car and truck sales during the first three months of 2015 were slightly ahead of a year ago.

Tourism activity was flat. Warm weather and lack of snow brought an early end to winter tourism activity in several areas of the District. However, a ski resort in Montana reported good snow conditions with lodging on par with a year ago and skier visits slightly behind last year. A tourism official in western South Dakota noted that warmer weather has boosted visits to National Park areas and that summer bookings for hotels were up compared with a year ago.

Construction and Real Estate

Commercial construction activity increased. Plans for a new 36-story commercial building in downtown Minneapolis were announced. North Dakota enacted a “surge” law, which adds $1.1 billion in infrastructure construction to the energy-producing region of the state. In Sioux Falls, S.D., the value of February commercial permits increased from a year ago. In Billings, Mont., commercial permits increased in value in March from a year earlier. On balance, residential construction activity in the District was up compared with a year ago. In the Minneapolis-St. Paul area, the value of March residential permits increased 39 percent compared with March 2014. March single-family residential building permits in Billings decreased in value from the previous year, but multifamily values increased. The value of February residential permits in Sioux Falls decreased from a year earlier.

Activity in commercial real estate markets increased since the previous report. An industrial real estate market specialist said that the Sioux Falls industrial market is "incredibly tight." A large health care company is securing more office space in North Dakota. An increased number of commercial real estate transactions were announced since the last report in many areas of the District. Residential real estate activity increased. In the Sioux Falls area, February home sales were up 6 percent, inventory increased 8 percent, and the median sales price increased 12 percent relative to a year earlier. Western Wisconsin home sales increased 7 percent in February from a year earlier, and the median sales price rose 6 percent. Minnesota home sales were down 1 percent in February from a year earlier, the inventory of homes for sale increased 4 percent, and the median sales price rose 13 percent.

Services

Activity at professional business services firms increased since the previous report. A large web development company noted that recent overall activity was up, but the type of work has changed to more mobile platforms. An architect noted increased requests for proposals.

Manufacturing

District manufacturing activity was flat overall compared with the previous report. Indexes of manufacturing activity released by Creighton University (Omaha, Neb.) covering Minnesota and South Dakota decreased in March from the previous month to levels indicating neutral growth, but the index for North Dakota increased slightly and showed positive growth. A small motorcycle producer announced that it will close a South Dakota plant. Several manufacturers of truck trailers in the District are expecting sales growth of 10 percent or more in 2015. A North Dakota firm announced a partnership to produce unmanned aerial systems and components.

Energy and Mining

The energy sector slowdown continued since the previous report. Oil and gas exploration fell further in response to lower oil prices; the number of active drilling rigs in North Dakota and Montana fell to its lowest point in five years in March. However, a company announced plans to build a new $600 million pipeline for Bakken crude. Mining activity also slowed. Three iron ore facilities in Minnesota idled or reduced production in response to lower demand from steelmakers.

Agriculture

District agricultural conditions were weak overall going into the planting season. Crop farmers continue to feel the effects of lower prices, while conditions were better for livestock producers. Milk prices have fallen dramatically in recent months, but dairy producers were still benefitting from lower feed costs. Minnesota turkey producers were concerned about an outbreak of an extremely virulent strain of flu that has killed thousands of birds; the state is the nation's largest producer of turkeys. Prices received by farmers in February fell from a year earlier for corn, soybeans, wheat, hay, milk, chickens, and hogs; prices increased for cattle, turkeys, and eggs.

Employment, Wages, and Prices

Labor markets were mixed, as a number of layoffs were noted since the previous report. In Minnesota, a retailer announced 1,700 layoffs and the aforementioned iron ore plants will lay off more than 1,100 workers as operations idle. In South Dakota, a manufacturer of agricultural equipment announced over 100 layoffs, while in North Dakota, a manufacturer of agricultural and construction equipment announced plans to lay off 80 workers. In the energy-producing areas of the District, oilfield workers were laid off with the decrease in drilling. Despite layoff announcements, several businesses continued to report difficulty filling open positions. Several businesses in western Minnesota reported difficulty finding qualified workers. A distribution center in Minnesota plans to hire 400 workers. Despite the slowdown in drilling, job openings in the energy-producing area of North Dakota increased slightly in February from January as businesses in several sectors continued to look for employees.

Overall wage increases were moderate. Business contacts generally reported wage gains of 2 percent to 3 percent; however, there were a few reports of companies increasing their starting wage level. Strong wage increases observed in the District's energy-producing region during the past few years have slowed in recent months and in some cases decreased.

Prices generally remained level. Minnesota gasoline prices were up slightly since the last report, but more than a dollar per gallon lower than a year ago. Iron ore prices decreased since the last report, while copper prices increased somewhat.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District was little changed since the prior Beige Book, with mixed conditions across sectors. Consumer spending declined slightly, despite some pickup in tourism activity. District manufacturing activity also fell slightly, and transportation and wholesale trade firms reported weaker activity. Energy firms reported sharp declines, while agricultural conditions softened somewhat. On the positive side, District real estate activity increased modestly for both residential and commercial activity. Professional and high-tech firms noted a rebound in activity from previous months, and bankers reported solid loan demand, stable loan quality, and steady deposits. Prices rose slightly in most industries, while firms in many sectors reported increased wage pressures as well as labor shortages for specific positions.

Consumer Spending

Consumer spending activity fell slightly, but activity remained higher than a year ago, and contacts had solid expectations heading forward. Retail sales slowed in March but were higher than year-ago levels. Several retailers noted a drop in sales for luxury and building products, although sales of lower-priced items were steady. Expectations for future sales were strong, though inventory levels were expected to be unchanged. Auto sales slowed in March and were flat compared to last year, although dealer contacts expected solid growth in the months ahead. Auto inventories fell from the previous month, with further decreases expected. Restaurant sales declined considerably and were slightly below year-ago levels, although contacts anticipated positive growth in coming months. District tourism activity rebounded in March and was well above year-ago levels. Tourism contacts expected solid growth for the months ahead.

Manufacturing and Other Business Activity

Manufacturing activity declined slightly in March, while other business activity was mixed but remained above year-ago levels. Manufacturing production levels eased, and producers' expectations for future activity moderated somewhat but remained slightly positive. The overall slower growth was mostly attributable to declines in plastics, food, and chemical production and continued weakness in metals and machinery. Looking across District states, the largest decline was in Oklahoma, which has a large concentration of oilfield equipment manufacturing. Manufacturers' capital spending plans fell from the previous survey, while export orders improved slightly. Transportation and wholesale trade firms reported weaker activity than in the previous survey, but sales were still above year-ago levels with solid expectations for future months. Professional and high-tech services contacts noted an increase in sales from the previous survey, and many firms expected activity to rise steadily in the months ahead. Most businesses reported fairly solid capital spending plans.

Real Estate and Construction

Real estate activity increased at a modest pace in March as both residential and commercial real estate markets expanded. Residential real estate sales increased moderately over the previous survey period and were above year-ago levels, with low- and medium-priced homes continuing to outpace sales of higher-priced homes. Home prices continued to make strong gains as inventories fell. Expectations for sales and prices were strong, and inventories were expected to decline further. Residential construction activity moved up as housing starts, traffic of potential buyers and prices increased in March over the previous survey period. Contacts anticipated modest increases in residential construction activity in the coming months. Commercial real estate activity increased at a modest pace over the previous survey period as vacancy rates decreased and absorption rose but at a slightly slower pace than the previous survey. Commercial real estate construction expanded at a moderate pace. Construction underway, completions, sales, and prices were increasingly positive compared to the last survey. The commercial real estate market was expected to continue to strengthen at a moderate pace over the coming months.

Banking

Bankers reported a slight increase in overall loan demand, stable to increasing loan quality and steady deposit levels through March. Respondents indicated slightly increased demand for commercial and industrial and consumer installment loans, while demand for commercial real estate, residential real estate and agricultural loans remained relatively steady. Most bankers indicated loan quality was unchanged compared to a year ago, with little change expected over the next six months. Credit standards remained largely unchanged in all major loan categories. In addition, deposit levels were stable for a majority of bankers.

Energy

Energy activity contracted sharply and the outlook remained uncertain, but most contacts expected industry conditions to improve later this year. The number of active drilling rigs posted another large decline, particularly in Oklahoma. Additional layoffs were announced, and contacts also commented that employee hours were cut slightly and overtime was reduced or eliminated. Access to credit tightened somewhat for energy firms, but some contacts reported that capital markets and private equity funding was still available. Contacts also reported that their breakeven oil price had come down considerably in recent months as drilling costs declined and technology improved, but capital spending plans were still sluggish. The natural gas market was largely unaffected by the stretch of harsh winter weather in late February, and the natural gas spot price stayed low and stable.

Agriculture

Agricultural conditions weakened somewhat in March, as growing conditions for wheat deteriorated slightly, and profit margins narrowed for some livestock operations. Scattered showers aided soil moisture in some areas, but more than half of the winter wheat crop in Kansas and Oklahoma was rated in fair to poor condition due to warm, dry weather. Although mild weather aided spring fieldwork, District farmers intended to plant slightly less corn and soybeans compared with last year, primarily due to lower crop prices. However, feeder cattle prices edged up since the last survey, boosting profits for cow/calf producers but reducing profit margins for feedlot operators. Profit margins also softened for hog producers as increased production and reduced export demand for pork placed downward pressure on hog prices.

Wages and Prices

Prices in most industries continued to rise slightly compared to the previous survey, and wages also grew modestly in many sectors, with contacts citing labor shortages for particular workers. Retail selling prices increased modestly, while restaurant menu prices were steady compared to the previous survey period. Manufacturing raw materials prices declined slightly but were higher than a year ago, and finished goods prices were modestly lower. Transportation input prices continued their moderate decline, while selling prices rose slightly. Construction materials prices held steady compared to the previous month but were expected to rise in the coming months. Retail sector wages experienced a mild decline, but wages in the restaurant and transportation sectors rose slightly. Contacts expected wages in these sectors to grow in future months. Respondents cited labor shortages for truck drivers, skilled technicians, and IT developers.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a moderate pace over the past six weeks, similar to the prior reporting period. Manufacturers mostly reported steady or increased demand. Retail reports were more mixed, but reports of automobile sales were consistently positive. Demand for nonfinancial services improved or held steady, and real estate activity remained solid. The energy sector continued to decline. Price pressures were muted and employment held steady or increased. Outlooks remained cautiously optimistic to quite positive, except for in the energy sector where outlooks were negative.

Prices

Most responding firms said prices held steady over the last six weeks. Retailers noted elevated transportation costs because of the West Coast port strike, while a few other industries—transportation services, airlines, and food and construction-related manufacturing—said lower fuel prices reduced transportation costs. Restaurant contacts said selling prices moved up to accommodate continued increasing costs and that further prices increases are expected by the third quarter.

The price of West Texas Intermediate crude oil trended down over the course of the reporting period. Energy contacts regard the oil price decline as transitory, but most expect that prices will not recover to the level of recent years any time soon. The price of natural gas mostly remained under $3 per MMbtu. Retail gasoline prices rose moderately over the past six weeks while diesel prices rose then fell to near the level seen at the beginning of the reporting period.

Labor Market

Employment in most industries held steady or increased, with more reports of hiring than in the last report. Hiring was noted by most airlines and restaurants, and scattered employment increases were seen among staffing, retail and transportation services firms. Several manufacturers increased payrolls over the reporting period, although an oilfield machinery manufacturer laid off 10 percent of its workers in response to plummeting demand, and the company expects to lay off another 10 percent next month. Oil and gas producers and oilfield service firms continued to cut their workforce as low oil prices forced deeper cost cutting, although many contacts expressed confidence that industry employment declines will be temporary. Shortages of skilled construction workers persisted.

Contacts reported wages were flat to up from six weeks ago. An auto dealer gave a raise to mechanics and an airline recently increased pay for pilots and flight attendants. Wages rose slightly in transportation services, and some upward wage pressure persisted in metals manufacturing. A retailer and a primary metals manufacturer remarked that Walmart's announcement about raising their base wage could lead to wage increases in order to stay competitive.

Manufacturing

With a few exceptions in industries heavily impacted by falling oil prices, most manufacturers said demand was flat to up, and outlooks were unanimously positive. Primary and fabricated metals producers said demand rose over the reporting period. Food producers said demand increased strongly and was up significantly from a year ago. Contacts in high-tech manufacturing reported demand was up but growth cooled over the past six weeks. Respondents said demand for personal computing devices weakened and one contact noted risks to international sales associated with the strengthening dollar.

Demand was flat to down for lumber, cement, and brick manufacturers, with most contacts citing low oil prices and bad weather as dampening factors. A few contacts noted that some commercial work was put on hold due to low oil prices. An oilfield machinery manufacturer said demand declined notably but he expects that the energy industry will begin showing signs of improvement in the second quarter.

Refineries along the Gulf Coast reported increased operating rates, on a seasonally-adjusted basis. Chemical producers reported lower prices and margins, and lower exports because of the strong dollar. The outlook among refiners remained optimistic while chemical industry contacts were less positive.

Retail Sales

Retail sales reports were mixed this reporting period, ranging from down slightly to up slightly. Contacts noting lower demand cited unusually cold weather as the main factor. National retailers noted that Texas sales slightly lagged the rest of the nation over the last six weeks. Some retailers have lower inventory levels because of the West Coast port strike. Outlooks for the rest of the year were optimistic, with some caution over the strength of the U.S. dollar.

Automobile sales continued to increase, although cold weather constrained the pace of growth. Demand was up year over year. Contacts said they may see some slowing in demand growth later this year depending on the extent of the effect of the energy industry slowdown and if interest rates go up.

Nonfinancial Services

Most nonfinancial services firms reported demand was flat or up from six weeks ago, and outlooks were optimistic. Staffing firms said Dallas was the source of much of the demand growth in Texas, while demand abated in Houston and Fort Worth, with low oil prices cited most often as the basis for the weakness. Finance, IT, accounting, and hospitals were noted as areas of strength, while sectors within or supporting the oil and gas industry were seeing the biggest pullback. Demand for professional and technical services experienced a broad-based increase over the reporting period, with a rise in business for accounting, legal and consulting services. Tax and audit services were experiencing seasonal highs, and law firms noted more work in mergers and acquisitions, bankruptcies, and litigation.

Sea, air and courier cargo volumes were up over the reporting period while rail cargo volumes were down. Air cargo contacts noted that volume growth in the international market outpaced that in the domestic market. Outlooks among transportation services firms were positive but there was uncertainty about how the cancelation of new energy projects would affect cargo levels. Airlines reported passenger demand was unchanged from six weeks ago and said the South American market continued to be weak. The outlook for domestic travel remained positive while the international outlook weakened from the time of the last report. Contacts in leisure and hospitality said demand was moderate to strong and noted that unusually inclement weather early in the reporting period dampened demand but business bounced back sharply in recent weeks.

Construction and Real Estate

Housing activity generally remained solid, and outlooks for the remainder of the year were positive. Home sales continued to rise, but reports on the pace of growth were mixed. Contacts in Dallas-Fort Worth reported weather-related weakness in the earlier part of the reporting period but said sales picked up in the latter half. Respondents in Houston noted continued strength in sales at lower price points, but noted softening in sales activity at the higher price points. Construction-related manufacturers said they saw a dip in homebuilding, particularly in Houston. Overall apartment demand stayed strong and rent growth was solid, particularly in Dallas-Fort Worth where occupancy was at a multiyear high. Multifamily construction remained at high levels, although contacts said some projects in Houston have been put on hold or cancelled.

Commercial real estate activity generally held steady since the previous report, and outlooks were cautiously optimistic in the near term. Demand for office space remained fairly solid, with the exception of Houston where contacts noted slower net absorption and an increase in the level of sublease space on the market. Industrial and retail demand remained stable or increased slightly.

Financial Services

Eleventh District loan demand increased slightly in the last six weeks. Commercial real estate loan growth in Austin and Dallas remained robust, but weakened somewhat in San Antonio. Contacts noted steady growth in consumer lending, and improved demand in agriculture and residential real estate lending. Loan quality continued to improve, even with the anticipation of negative effects of sustained low oil prices. Deposit volumes continued to grow at a steady clip, and one contact noted that competitors were beginning to gently increase deposit rates. Low interest rates on loans continued to squeeze bank earnings, and competition for loan deals remained tough. Outlooks improved since the last report, but contacts remained cautious.

Energy

The rig count and demand for oilfield services declined in the district, with losses concentrated in the Permian Basin and Eagle Ford areas. Contacts noted that larger service firms were better off than smaller ones, as they were better able to negotiate with producers on the volume and price of services. Contacts also said firms were better hedged this time around than in previous downturns and so far have generally been able to get funding, restraining any increase in mergers and acquisitions. Outlooks remained negative for 2015, with an expected 30 to 40 percent drop in capital expenditures.

Agriculture

Rainfall improved soil moisture and pasture conditions across much of the district, but severe drought persisted in parts of Texas, particularly in the north. Wet field conditions caused planting delays in some areas of South and East Texas. A shift in some acreage from cotton to sorghum is expected this year as farmers react to low cotton prices. Cotton prices remained below a profitable level for farmers, while cattle prices increased seasonally and were very high.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to improve moderately during the reporting period of mid-February through the end of March. Overall price inflation was slight, while wage inflation was moderate. Retail sales and demand for business and consumer services increased moderately. Overall manufacturing activity improved modestly on net. The pace of output in the District's agricultural sector was unchanged. Real estate activity advanced, especially in the commercial real estate sector. Lending activity increased moderately.

Prices and Wages

Overall price inflation was slight during the reporting period. Declines in oil prices contributed to lower ocean freight costs and tempered increases in overall costs of construction materials in some areas. Industrial metals prices declined slightly. Competition from online shopping continued to pressure overall in-store grocery and other retail prices. However, beef prices continued to climb, and contacts expect further increases. Competitive pressures and technological advances contributed to price declines across the technology sector. Contacts in the health care industry reported that significant losses by insurers in the wake of health reform generated downward pressure on the price of health care services. Contacts expect significant rate increases for insurance on the health exchange in the fall, as insurance companies attempt to recoup previous losses.

In general, wages increased at a moderate pace during the reporting period. Contacts noted some seepage of wage pressures that had been limited to higher end jobs in urban areas into middle tier jobs and smaller towns. A metals manufacturer increased starting and lower-end wages recently. Some contacts expressed concern that many small businesses in rural areas will be unable to sustain proposed increases in the minimum wage in their state. Reports of increases in wages for skilled construction workers were widespread across the District. Wages for software developers and specialized workers in aerospace and healthcare continued to increase.

Manufacturing

District manufacturing activity improved modestly on net. Contacts observed robust production of commercial aircraft and electronic components. Reports pointed to persistent revenue growth in the biotechnology and pharmaceutical manufacturing sectors. Demand for aluminum and wood products weakened. Production of motor vehicles has slowed this year, perhaps due to overproduction late last year. A weak outlook for spending by the Department of Defense contributed to softness in new orders and diminished capacity utilization in the defense aerospace sector. Capacity utilization in the steel manufacturing sector declined below levels observed in 2014 and early 2015. However, demand for steel products used in construction, in particular, has been largely stable in the Twelfth District. Continued soft demand for equipment used in the mining and the energy sectors held back orders for recycled steel and metals.

Agriculture and Resource-Related Industries

The pace of output in the District's agricultural sector was unchanged during the reporting period. Drought conditions continued to create challenges for many farmers, but those with adequate access to water benefited from favorable weather conditions. Reduced water availability affected plantings of annual crops, including rice, corn, and cotton. The need to purchase water or drill for water put upward pressure on the cost of production. Some farmers' outlooks deteriorated, given weakness in certain drought-related metrics, such as snow pack levels, recorded at only 8% of their historical average. Reports indicated that exports have increased somewhat since the labor disputes at West Coast ports were resolved.

Retail and Services

Overall retail sales activity grew moderately during the reporting period. Auto sales were healthy. Demand for mobile devices grew robustly, but sales of personal computers declined. Consumers exhibited strong demand for entertainment and gaming products. After a very good holiday shopping season, some areas saw continued momentum in the first quarter. Other areas with strong holiday sales reported unexpectedly mixed activity recently. One contact noted that tax preparers in their area are finding that a large proportion of filers projected lower than actual incomes and are facing significant repayments of excess health subsidies.

Demand for business and consumer services grew moderately during the reporting period. Spending at restaurants increased, boosted by low gas prices. Contacts in the technology industry expect business spending on software to accelerate in 2015, especially in the security, cloud computing, and analytics segments. In areas with active residential construction, demand for engineering and architectural services was strong, with larger backlogs than at any time since before the recession.

Real Estate and Construction

Real estate activity advanced during the reporting period. Multi-family residential construction activity is robust in many areas, although a shortage of skilled labor in selected regions is damping the pace slightly. Several contacts reported that although the pace of single-family construction remained slower than that of multi-family, single-family construction picked up. Low inventories of single-family homes limited the pace of sales in some areas. A few contacts also cited stringent mortgage qualification requirements as an impediment to home purchases. Nevertheless, the pace of sales of single-family homes increased notably in some areas, with multiple offers and few days on the market. Many contacts reported heavy commercial construction activity. Commercial real estate vacancy rates declined, and rents increased, driven in part by strong demand from the technology and healthcare sectors.

Financial Institutions

Lending activity in the District increased moderately during the reporting period. Demand for commercial real estate and business loans increased. Some banks are building a sizable pipeline of pending loans and have increased interest rates a bit in order to bring demand more in line with supply. Selected areas with relatively tight labor markets and increasing wages showed strong demand for mortgages. However, with the exception of auto loans, demand for consumer loans remained low. Deposits continued to grow somewhat, despite very low interest rates. Although competition for creditworthy borrowers overall remained vigorous, some contacts reported that national and large regional banks seem to be shifting away from small and medium customers and concentrating more on large customers. Venture capital investments increased during the reporting period, but private equity financings declined.