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Summary of Commentary on ________________________

Current Economic Conditions

By Federal Reserve District

May 2015

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS BY FEDERAL RESERVE DISTRICTS

MAY 2015

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Summary[*]

Reports from the twelve Federal Reserve Districts suggest overall economic activity expanded during the reporting period from early April to late May. Activity in the Richmond, Chicago, Minneapolis, and San Francisco Districts was characterized as growing at a moderate pace, while the New York, Philadelphia, and St. Louis Districts cited modest growth. Contacts in the Boston District reported mixed conditions, and the Cleveland and Kansas City Districts indicated a slight pace of expansion. Compared to the previous report, the pace of growth slowed slightly in the Dallas District but held steady in the Atlanta District. Outlooks among respondents were generally optimistic, with growth expected to continue at a modest to moderate pace in several districts.

Manufacturing activity generally held steady or increased over the reporting period, except for in the Dallas District where it was slightly weaker and in the Kansas City District where it fell markedly. Strength was seen in transportation equipment manufacturing, while continued weakness was reported in primary and fabricated metals products and energy-related industries. Most districts reported an uptick in retail spending, and outlooks were positive, with retailers expecting continued sales growth in 2015. Overall vehicle sales rose, particularly for trucks and SUVs which auto dealers in some districts attributed to lower gasoline prices. Travel and tourism expanded across most reporting districts, except for the New York and Kansas City Districts.

Demand for nonfinancial services increased, and staffing firms reported steady or higher activity. Port activity was strong in the Richmond, Atlanta, and Dallas Districts, but reports on other freight and transportation services activity were mixed. Most districts said residential and commercial real estate activity and construction improved since the last report. Home prices continued rising and low home inventories continued to constrain sales activity in some areas of the country. Overall loan demand increased, with particular strength noted in the New York District. Credit quality and delinquency rates were stable or improved. Credit standards were mostly unchanged, except for scattered reports of easing in the Philadelphia, St. Louis, Atlanta, and San Francisco Districts.

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[*] Prepared at the Federal Reserve Bank of Dallas based on information collected on or before May 22, 2015. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

The agricultural sector improved as significant rainfall alleviated the dry spell or improved growing conditions in several districts. However, drought conditions persisted in the San Francisco District and the outbreak of the avian flu severely impacted poultry producers in the Chicago and Minneapolis Districts. Oil and natural gas activity continued to decline in most districts, except for Cleveland where the rig count leveled off. Coal production was flat to down.

Employment levels were up slightly over the reporting period, with some reports of layoffs. Wages rose slightly. Prices were stable or ticked up, although manufacturers in some districts cited lower input prices.

Manufacturing

Manufacturing was mostly flat to up over the reporting period, except for in the Dallas District where it was steady to slightly weaker and in the Kansas City District where it declined sharply. Growth was moderate in the Boston, Atlanta, Chicago, and St. Louis Districts. The Philadelphia District reported slight growth, while factory activity was mostly flat in the New York, Cleveland, Richmond, San Francisco, and Minneapolis Districts.

Growth rates varied across industries. Demand for transportation equipment manufacturing was strong in the Cleveland and Chicago Districts, and machinery manufacturers reported solid gains in the Philadelphia District and were expanding operations in the St. Louis District. Demand for high-tech products softened in the Dallas District, but sales of semi-conductors picked up in the San Francisco District. Manufacturers of construction materials and/or machinery continued to see strengthening demand in the Cleveland and Chicago Districts, but unusually wet weather caused demand to flatten in the Dallas District. Demand increased for rubber and plastics products in the Philadelphia and Richmond Districts, and contacts in the biotech and pharmaceutical industries in the San Francisco District reported strong growth and record levels of activity in mergers and acquisitions. Reports of weaker activity for primary and/or fabricated metals manufacturing came from the Philadelphia, Richmond, St. Louis, Kansas City, and Dallas Districts. Reports on the steel industry were mixed; the Cleveland and San Francisco Districts reported some continued weakness, in part due to a strong dollar, while some contacts in the Richmond and Chicago Districts said steel shipments and/or capacity utilization picked up over the reporting period. The impact of the strong dollar was felt in other industries as well, with the Boston, Cleveland, Chicago, Minneapolis, and Dallas District noting its negative impact on export sales or capital investment in segments with significant overseas exposure.

The downturn in the oil and gas industry tempered manufacturing growth in over half the districts, particularly for industries dependent on the energy sector. These districts were Boston, Philadelphia, Cleveland, Chicago, Minneapolis, Kansas City and Dallas. The Kansas City District reported that manufacturing production fell most sharply in the district's energy-producing states like Oklahoma and New Mexico. The Dallas District noted that oilfield machinery sales remained weak and were down significantly from a year ago, and the Philadelphia District said businesses involved in natural gas and pipeline work noted negative impacts from decreased drilling activity and lowered capital expenditures. Contacts in the Boston District said the slowdown in oil and gas investment has been much bigger and faster than anticipated.

Cleveland and San Francisco District contacts generally increased their capital spending budgets over the reporting period, while contacts in the Minneapolis and Kansas City Districts noted declines and Boston and Philadelphia District contacts said capital expenditures were steady. Overall outlooks among manufacturers were generally positive, with some exceptions in the Cleveland, Kansas City, and Dallas Districts.

Consumer Spending and Tourism

Consumer spending increased across the districts since the prior report, except in the Richmond District, where retail sales were unchanged, and in the New York District, where retail sales fell slightly. Retailers in the New York District and mall retailers in the Philadelphia District said April sales were down year over year and attributed some of the weakness to the Easter holiday falling earlier this year. The Boston, Cleveland, and Kansas City Districts observed stronger sales on a year-over-year basis. A few districts noted weak demand for apparel, including Boston, Philadelphia and Chicago. The Chicago and San Francisco Districts reported strong sales in the entertainment and gaming sector. Contacts in the Cleveland and San Francisco Districts said low gasoline prices provided a tailwind for consumer spending, while contacts in the Atlanta District said this had yet to materialize. Inventory levels were mostly reported as satisfactory. A contact in the New York District said delays at West Coast ports have subsided while contacts in the Cleveland, Atlanta, and Dallas Districts said they were still being negatively impacted by residual effects of the strike. Outlooks among retailers were mostly positive, expecting continued growth throughout 2015.

Auto sales were up across the districts, except for in New York where they were flat on net and in Cleveland where they declined slightly. Sales growth was strongest in the Richmond, Chicago, and San Francisco Districts. Lower gasoline prices continued to spur a shift from cars to light trucks or SUVs in the Cleveland, Atlanta, and Chicago Districts, and auto dealers in the St. Louis and San Francisco Districts also noted stronger growth in trucks and SUVs relative to other models. A Philadelphia District contact said auto dealers were in a slower growth mode as a result of strong sales in 2014, and noted that current sales volumes were approaching record highs. Auto inventories rose in the Kansas City and Richmond Districts, and in the Chicago District inventories were elevated for car dealerships due to increased demand for SUVs and trucks. Outlooks were generally optimistic for further auto sales growth in 2015.

Tourism and travel improved in several districts but showed signs of continued slowing in the New York District and moved down in Kansas City. Hotel occupancy was up in the Boston, Richmond, and San Francisco Districts, and was strong in the Atlanta District. In the New York District, Manhattan hotels and Broadway theatres reported lower revenues. Restaurant sales increased in the Boston, Philadelphia, and San Francisco Districts but remained weak in the Kansas City District, although contacts there anticipate growth in coming months. Strong summer hotel and resort bookings were noted in the Philadelphia, Richmond, Atlanta, and Minneapolis Districts.

Nonfinancial Services

Demand for nonfinancial services, such as information technology, healthcare, and professional and business services generally expanded since the previous report. The Kansas City and San Francisco Districts noted moderate growth in demand for information technology services, while mixed business conditions were reported by software and IT services contacts in the Boston District. Revenues at engineering and architectural services firms increased, according to Richmond’s report. Activity in healthcare services was strong according to reports from the Richmond and San Francisco Districts, and a few San Francisco District contacts noted that the Affordable Care Act was a source of continued growth. The Richmond and Dallas Districts noted continued strength in accounting services. The Dallas District report cited mixed demand for legal services, while activity at legal firms in the San Francisco District remained weak and contacts said that many new graduates were underemployed or working in other fields. Service providers in the Boston, Philadelphia, and Dallas Districts have an optimistic outlook and professional and high-tech services contacts in the Kansas City District reported solid capital spending plans.

Staffing services demand generally grew at a stable or improved pace since the prior report. Demand for staffing services ticked up in the Cleveland and Dallas Districts, and grew at steady pace in the Philadelphia and Chicago Districts. A recruiting firm in the Minneapolis District said demand expanded at a faster clip compared with the past few years, and a staffing contact in the Richmond District said employers were making hiring decisions more quickly. In contrast, an employment agency in the New York District said hiring activity slowed slightly from the brisk pace seen in March, and reports from staffing agencies in the Boston District were mixed, ranging from strong growth in demand to continued weakness.

Reports on transportation services and freight activity were mixed. Transportation firms saw stronger activity in the Kansas City District. Demand for air travel was stable in the Dallas District. Port activity remained strong in the Richmond, Atlanta, and Dallas Districts, and ports continued to get diverted traffic from the West Coast, according to Richmond's report. Rail traffic held steady or declined in reporting districts. Demand for trucking services was characterized as brisk in the New York District, while slight increases relative to the last report were noted in Richmond. Trucking activity expanded year over year in the Atlanta District, but fell in the Philadelphia District. Trucking firms in the Dallas District saw mixed demand. Reports on freight volumes were mixed in the Cleveland District, and contacts seeing softer demand cited the slowdown in the steel and energy industries as a source of the weakness. Air freight volumes declined in the Dallas District, while intermodal transportation and transport of seasonal goods increased, according to Cleveland's report.

Construction and Real Estate

Residential real estate activity and construction expanded in most districts since the prior report, and outlooks were largely positive. Homes sales rose strongly in the Minneapolis District on a year-over-year basis, while more modest to moderate gains were reported by all of the remaining districts, except for Philadelphia where builders reported mixed conditions for new home sales and brokers noted slightly slower existing-home sales in April on a year-over-year basis.

Sales of low- and medium-priced homes outpaced sales of higher-priced homes in the Kansas City District. Contacts in the Cleveland District said most new-home contracts were in the move-up price points, while the Dallas District noted declining sales in Houston for mid-priced new homes. Tight inventories were restraining sales growth in the Boston and New York Districts, although pending sales were up in the Boston District, suggesting that closings would rise in coming months. Home prices rose across much of the country, which contacts in some districts attributed to low inventories relative to demand.

Residential construction was flat to up during the reporting period, although a few districts reported a slower pace of homebuilding activity due to financing and capacity constraints and severe weather. Residential construction activity increased slightly in the Chicago District, where contacts expressed concern that the current strong pace of apartment construction was unsustainable. Homebuilding was flat in the Minneapolis and Kansas City Districts. Rainfall delayed lot deliveries and new home starts in the Dallas District, and several builders in the Cleveland District commented that there is desire to build more speculative homes, but capacity and financing constraints have made it difficult to increase inventory.

Apartment demand was strong in the Dallas District, and held steady in the Richmond District. Tight inventories and strong sales continued to push up prices, except for at the high end of the Manhattan market, according to New York's report. Condo sales rose in the Richmond District, but declined in the Boston District. Rents and prices increased in districts that commented on them, and one San Francisco District contact said that high apartment prices have led young buyers to consider single-family homes. Strength in multifamily construction was reported in the Cleveland, Atlanta, and San Francisco Districts, and the Richmond District continued to experience steady apartment building activity.

Commercial real estate leasing and construction activity improved in most districts, and outlooks were optimistic. The New York District reported a strengthening industrial market and steady office and retail leasing demand. In the Boston District, demand for office space held steady at a decent to solid pace, except for in Hartford where demand was slow. The Dallas District continued to see active industrial, retail, and office leasing activity, with the exception of the Houston office market. Both commercial real estate development and leasing activity increased across the San Francisco District, mostly fueled by growth in the technology industry. Contacts in the St. Louis District noted a tight office market for Class A space, and continued commercial and industrial construction. Commercial building increased in the Chicago District driven by demand for industrial and office space, and new hotel and office development in downtown Chicago was compelling retailers to relocate. The Cleveland and Atlanta Districts noted increased construction backlogs, and shortages of skilled labor remained a constraint on construction activity in some districts, such as Boston, Cleveland, and San Francisco.

Banking and Finance

Lending activity increased during the reporting period. Several districts, including Philadelphia, Richmond, Atlanta, St. Louis, and San Francisco reported modest to moderate increases in loan volumes. The New York District noted a strong, broad-based pick up in loan demand since the previous report; however, the Dallas District reported slower overall growth. Commercial and industrial loan demand improved in the Philadelphia, Cleveland, St. Louis, and San Francisco Districts, though it was characterized as stable in the Richmond and Kansas City Districts. Business lending expanded at a slower pace in the Dallas District, and the Chicago District saw an uptick in loan demand from small and large businesses, but weaker middle-market lending activity, particularly from the oil and gas industry. Commercial real estate financing held steady in the Kansas City District, while exhibiting continued strong growth in the New York, Cleveland, Chicago, and Dallas Districts.

On the consumer lending side, several districts noted increased demand for auto loans, including Philadelphia, Cleveland, Atlanta, St. Louis, and Dallas. Demand for credit cards fell in the St. Louis District, but grew strongly according to Philadelphia's report.

Reports on mortgage lending were mixed. Residential real estate lending rose in the San Francisco District, where one contact reported increased hiring of loan originators, processors, and underwriters to meet growing mortgage demand. The Richmond, Chicago, St. Louis, Kansas City, and Dallas Districts reported an uptick in residential mortgage loans, and contacts in the Cleveland District said the increase in residential mortgage demand was largely for new home purchases. Refinancing activity was unchanged in the New York District; however, it weakened in the Richmond and Chicago Districts. Home equity loan demand rose in the Cleveland District, but was characterized as low in the Chicago District.

Credit conditions generally remained stable or improved. Widespread declines in delinquency rates were seen in the New York and St. Louis Districts, and delinquencies edged down in the Cleveland District from already low levels. Most bankers in the Philadelphia and Kansas City Districts expressed continued confidence in the quality of their loan portfolios. The Dallas District reported that default rates and charge-offs were at all-time lows, and consumer credit quality improved slightly in the Chicago District.

Credit standards remained largely unchanged, with a few exceptions. The Philadelphia and St. Louis Districts noted slight easing of credit standards for mortgages and C&I loans, respectively. Competition among some lenders led to looser credit standards in the Atlanta District, and contacts in the San Francisco District commented that some financial institutions were relaxing lending standards or looking for new revenue sources in part due to downward pressure on net interest margins.

Agriculture and Natural Resources

Agricultural conditions improved for most reporting districts, except for in San Francisco where drought conditions persisted. Significant rainfall alleviated drought conditions and/or improved growing conditions in much of the Atlanta, Minneapolis, Kansas City, and Dallas Districts. Overly wet areas in the Richmond and St. Louis Districts dried enough for planting to move ahead, while in the Dallas District wet field conditions prevented some producers in South Texas from planting crops in time. Crop planting was underway across the reporting districts and progressing at an above-average pace in the Chicago, St. Louis, and Minneapolis Districts, and for soybeans in the Atlanta District. Contacts across several districts reported that crop prices for cotton, wheat, corn, and soybeans remained low and in some cases moved lower over the reporting period, while cattle prices remained historically high. The St. Louis, Minneapolis, and Kansas City Districts said farm income declined. The Chicago District said poultry flocks were hit hard by avian flu, and the Minneapolis District noted that the outbreak was expected to cost Minnesota producers more than $300 million.

Reports indicated that oil and natural gas drilling activity continued to decline in the Atlanta, Minneapolis, Kansas City, Dallas, and San Francisco Districts, while the Cleveland District said the number of rigs operating in the Marcellus and Utica shale regions leveled out in April after sharp declines in the first quarter. A survey of energy services firms in the

Minneapolis District showed that 75 percent of respondents had lower revenues than a year ago and half had lower capital expenditures, and contacts in the Dallas District also noted a drop in capital expenditures this year. The Kansas City District reported continued layoffs at regional oil and gas firms, but contacts said that if a further rebound in oil prices occurs and holds, drilling could ramp back up later this year. Coal production declined in the Richmond and St. Louis Districts but was little changed in the Cleveland District. The Cleveland District noted declines in coal prices over the reporting period while coal prices were reported as flat in the Richmond District.

Employment, Wages, and Prices

Employment levels were up slightly across districts over the reporting period. Reports of hiring came from a variety of industries, and the Boston, Richmond, Atlanta, and St. Louis Districts noted employment gains in manufacturing. Some instances of layoffs were mentioned by the St. Louis, Minneapolis, and Dallas Districts. The Richmond District cited employment declines in West Virginia's coal and gas industries and the Minneapolis District said online job openings in the energy-producing area of North Dakota were down significantly from a year ago. Reports of labor shortages spanned several districts including Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and Kansas City. An ongoing and widespread shortage of truck drivers was noted in the New York, Cleveland, and Kansas City Districts. Firms in the Cleveland, Atlanta, Chicago, and Minneapolis Districts reported difficulty retaining employees. The New York District said a sizeable proportion of service-sector firms plan to expand employment in the months ahead.

Slight growth in wages was reported by most districts. A tight market for skilled construction labor in the Boston, Dallas, and San Francisco Districts pushed up wages for workers there, and staffing services firms in Boston, New York, and Dallas noted rising wages. The Richmond, Kansas City, and San Francisco Districts noted higher wages in the restaurant and/or hospitality industries. Some contacts in the IT sector in the San Francisco District reported rapid wage gains, and their counterparts in Boston noted rising wages as well. Employers in the Atlanta District were monitoring how recent minimum pay announcements from a number of employers would affect local labor markets. Contacts across various industries in the Chicago District reported a willingness to raise wages when necessary to attract and retain workers, and a notable share of reporting firms in the Minneapolis District also said they were increasing starting pay for most job categories to attract new hires.

Districts reported stable or slightly increased prices overall during the reporting period. Several districts—Boston, Philadelphia, Cleveland, and Kansas City—noted softer input prices in the manufacturing sector, while the Richmond District reported that manufacturing prices paid accelerated slightly, and manufacturers in the New York and Dallas Districts said input prices were stable. The New York District reported upward pressure on input costs among service sector firms, and there were reports of increased transportation costs and/or fuel prices in the Cleveland, Minneapolis, Kansas City, and Dallas Districts. Selling prices rose among service-sector firms in the Philadelphia and San Francisco Districts, among manufacturers and retailers in the Richmond District, and among retailers and restaurants in the Kansas City District. Manufacturers in the Cleveland District were reluctant to pass through lower input prices to customers. Selling prices were stable in the New York and St. Louis Districts and among retailers in the Cleveland and Chicago Districts. Low oil prices and the strong dollar reduced input and transportation costs for agricultural producers in the San Francisco District, putting downward pressure on prices in that sector.

FIRST DISTRICT – BOSTON

Business contacts report mixed conditions in the First District. Retailers and manufacturers cite moderate revenue or sales increases from a year ago. Staffing firms' results range from "strong" low double-digit percentage increases to flat or down slightly, while software and information technology (IT) services firms' reports are less positive, including some revenue declines. Residential and commercial real estate market contacts cite little change since the last report. Product prices and input prices are reported to be generally steady. Contacts in software and IT services, staffing, and one in construction, say wage levels are increasing; most other employers say they are raising wages only selectively if at all. Hiring plans of responding firms remain subdued.

Retail and Tourism

First District retailers contacted for this round report year-over-year comparable-store sales increases between 1 percent and 5 percent, which some contacts say indicate better consumer sentiment. However, other contacts report seeing softer sales in specific regions or categories, such as men's and women's casual apparel. While they admit that these spotty softer sales may be transitory, a few respondents express less confidence than most contacts did in the last round, and one notes that the Conference Board's Consumer Confidence Index showed a substantial year-over-year drop in New England in April. Respondents say inventories are well managed and prices remain steady. Most contacts are still planning for additional hiring and capital spending, as they continue to expect improvement in the U.S. economy.

Boston-area hotel occupancy rates were up 3.5 percent year-over-year in the first quarter. While April figures are not yet available, analysts expect strong hotel revenues based on the Boston Marathon and continued strength in business and leisure travel; forecasts for Memorial Day business and the high summer travel season are very strong. Attendance at museums and other attractions was down 12 percent year-over-year in 2015:Q1, but a good portion of this drop is attributed to the severe winter weather. Notwithstanding the extreme weather in the first quarter, international visitors were up about 8 percent year-over-year, and restaurant business was up 1.35 percent year-over-year.

Manufacturing and Related Services

Eleven of twelve responding manufacturers report stronger sales versus the same period a year earlier. The only firm to report weaker sales is a manufacturer of health and fitness equipment which attributed part, but not all, of the decline to strengthening dollar, discussed further below. A firm that owns an industrial distribution business indicates that sales in the energy sector and to customers dependent on energy like specialty steel have been slow. Our contact comments that the slowdown in oil and gas investment has been much bigger and faster than anyone anticipated. Our contacts do not report Europe as weighing as much on their sales as in previous rounds, but it is not yet a source of strength.

Half of respondents comment on the strength of the dollar and its negative impact on their sales overseas. A manufacturer of laboratory equipment says their sales would have been up 15 percent, not up only 7 percent, if not for currency changes. A tool manufacturer says that customers are delaying purchases to see if currency changes are permanent or temporary.

Contacts report the usual competitive pressures on their selling prices. On the input side, four manufacturing contacts report softness in pricing. Two contacts, a manufacturer of aerospace and defense equipment and a tool maker, used the word "deflation" to describe the market for their supplies.

Inventories appear to be stable with changes largely due to idiosyncratic issues. None of our contacts have revised their capital spending plans. The manufacturer of fitness equipment reporting slower sales says it may revise its capital spending plans if the weakness continues.

Employment is stable or higher for most firms. An exception is the manufacturer of fitness equipment who reports reducing its temporary workforce. The tool manufacturer says employment is up substantially because it has been "on-shoring"—moving production back to the United States from overseas. The company also says that the use of U.S. labor has "resonated with consumers," leading to substantial market share gains and sales increases.

The outlook is positive for all of our contacts; they expect continued growth in the next few quarters. That said, no one views the current economic situation as a "boom."

Software and Information Technology Services

First District software and information technology services contacts report "mixed" business activity in recent months, with total revenue ranging from down 4 percent to up 9 percent year-over-year. Contacts attribute softer business performance to overall uncertainty in the global economy, foreign currency depreciation in Europe and Asia, and a weaker-than-expected manufacturing sector. Two contacts note that an increased number of clients delayed project start times or downsized deals in recent months. Most firms are holding selling prices steady; one firm raised prices slightly. Capital and technology spending has largely remained flat. Two contacts report reductions in headcount in order to increase efficiency, while one firm added to headcount. Most firms are increasing wages by 3 percent to 5 percent, with increases concentrated in specialized, technical roles. Looking forward, contacts either maintain the same level of optimism or are slightly less optimistic than three months ago, expressing concern about the continued strong dollar and volatility in the overall macroeconomy.

Staffing Services

Reports from First District staffing firms are varied, with some firms citing strong business growth in the low-double-digit range, and others reporting continued softness, despite weather improvements. All respondents indicate that labor demand has strengthened in recent months, with upticks in demand for both permanent and temporary labor. They also say that while overall labor supply has increased, it remains a challenge to identify and attract specialized, technical workers to meet client demand. However, some staffing firms are having more success than others in recruiting these highly-skilled workers. Contacts report that legal, paralegal, executive assistant, software development, engineering, and nursing roles are particularly difficult to fill. In response, firms continue to utilize referrals, LinkedIn, and other social media tools to attract top candidates. Both bill and pay rates have increased by 4 percent to 20 percent in recent months, with the steeper increases reflecting greater supply-demand imbalance. Looking forward, some contacts are optimistic, but others are concerned that growth will continue to be tempered by the mismatch between client demand and available labor supply. Some contacts also express uncertainty about continued growth in the overall economy and about the cost implications of the Massachusetts sick leave law.

Commercial Real Estate

Reports from commercial real estate contacts in the First District are mixed. A Hartford contact had expected leasing activity to improve with the arrival of spring, but he reports that the improvement failed to materialize and leasing activity remains slow in each of the office, retail, and industrial sectors. However, Greater Hartford's investment sales market is experiencing robust demand and steady transaction volume. In Greater Boston, office leasing activity is holding steady at a solid pace and fundamentals are roughly unchanged. Also in Greater Boston, construction activity is steady at a brisk pace and the outlook calls for increased construction activity in the health care sector. Boston's office construction activity consists mostly of build-to-suit projects rather than speculative structures. In Portland, the vacancy rate is declining in the class A office market amid brisk leasing activity, and rents are expected to rise (if slowly) in each of Portland's office, retail, and industrial sectors in the coming year. In Providence, office leasing volume is described as decent and business sentiment is improving. According to one contact, scarcities of skilled construction labor relative to demand for such labor in the region—and associated wage increases—are starting to hinder additional construction activity.

Residential Real Estate

Closed sales of single family homes reported in April (reflecting sales under contract in February and March) were up on an annual basis in every state in the First District with the exception of Massachusetts, where the number of closed sales declined. While closed sales in Massachusetts have been lower than a year earlier in 7 of the last 11 months, the number of pending sales increased year-over-year in 25 of the last 26 months. Contacts attribute this pattern to an inventory shortage and strong consumer demand, stating that "sellers may be more willing to let consumers out of contracted agreements if an inspection fails or financing falls through because they know another buyer will line up." Inventory in Massachusetts continues to decline, while building and zoning laws continue to make new construction difficult. Similar to Massachusetts, inventory decreased in every state in the First District except Connecticut. Pending sales have also increased in all six states, suggesting that closed sales will continue to rise in upcoming months. Median sales price increased in four states; the median price declined in Connecticut and was unchanged in Rhode Island relative to a year ago. Connecticut contacts state that decreases in the median sales price may be due to sales of distressed homes, which continue to work their way through the judicial system. Massachusetts contacts say that consumer demand plus inventory shortages have driven year-over-year increases in the median sales price for 29 out of the last 30 months.

Unlike the single-family home market, the condominium market saw closed sales decrease in five of the New England states; New Hampshire was the exception. The median sales price for condos rose in Massachusetts and New Hampshire, remained unchanged relative to a year ago in Connecticut, and decreased in Maine, Vermont, and Rhode Island. Declining sales and increasing prices for condos in Massachusetts are attributed to inventory shortages, just as in the single-family home market; the Commonwealth currently has only 2.4 months of condo supply available. Condominium inventories decreased year-over-year in every state in the First District.

Contacts describe housing markets across the First District as very active. They say they expect buyer demand to persist through the spring market and into the summer.

SECOND DISTRICT--NEW YORK

The Second District's economy has continued to expand at a modest pace since the last report. Businesses report that selling prices remain mostly stable, though service sector firms indicate ongoing upward pressure on input prices and wages. Labor market activity has been more subdued in recent weeks. Consumer spending showed further signs of weakening in April, though there were some indications of a rebound in early May. Housing markets were steady to stronger; office and retail markets were mixed, while the market for industrial space continued to strengthen. Commercial construction and multi-family residential construction have picked up thus far in the second quarter. Finally, banks report stronger loan demand, continued narrowing in loan spreads, and lower delinquency rates across the board.

Consumer Spending

Retailers report that sales were weak and generally below plan in April but rebounded, to varying degrees, in early May. Two major general merchandise chains and a major upstate New York mall all indicate that sales were down from a year earlier and generally short of plan in April. Unseasonably cold weather and a shift in Easter from April to March this year were blamed for only part of the weakness in April. Retail contacts reported that sales picked up in May but were still described as on or below plan, with underlying demand characterized as somewhat weak in both months. Inventories are generally said to be at satisfactory levels, with one contact noting that delays at west coast ports have subsided. Prices are reported to be generally steady; one major chain indicates that pricing is less promotional than a year ago, while another chain reports that it is somewhat more so.

Auto dealers report mixed results for April and early May. Rochester area dealers report that new vehicle sales were down slightly from a year earlier in April and remained soft in May. Buffalo area dealers indicate that sales picked up somewhat in April and May, following a weak March. Though growth has been slow in both areas, sales activity remains at a fairly high level. Contacts note some tightening in auto lending standards, but generally report that credit conditions remain in good shape. Tourism activity in New York City has shown further signs of slowing in recent weeks: both Manhattan hotels and Broadway theaters report some recent weakening in revenues, and a retail contact notes some softening in tourism-related sales.

Construction and Real Estate

The District’s housing markets have been mixed but generally stronger since the last report, with lean inventories reported in many areas. Buffalo area real estate contacts report that, after a weak first quarter, the housing market has strengthened noticeably in April and early May: low inventories have restrained sales activity somewhat but have buoyed prices and prompted bidding wars. Reports from Realtors associations across New York State more broadly point to a moderate pickup in the housing market, with inventories down and prices running about 5 percent ahead of comparable 2014 levels. Northern New Jersey has seen more modest gains, with one contact noting that an ongoing overhang of foreclosures continues to weigh on the market. New York City’s co-op and condo market has been mixed but generally steady since the last report. Low and declining inventories and strong demand continue to drive up prices in Brooklyn and Queens. The same pattern is occurring in Manhattan, except at the high end of the market, where abundant new development has pulled down sales prices of luxury apartments.

Residential rental markets have been mixed but mostly stronger thus far in the second quarter. Apartment rents are running 2-5 percent ahead of a year ago across most of the District, though they have leveled off in Manhattan. Rental vacancy rates declined in northern New Jersey and across upstate New York, but were little changed in Long Island and most of New York City. Multi-family construction has been increasingly robust across most of the District.

Commercial real estate markets across the District have been mixed, with industrial markets continuing to strengthen but office and retail markets generally steady. Office availability rates have edged down in upstate New York and northern New Jersey, though they remain quite elevated in the latter. Rates remain steady across Manhattan but have risen to multi-year highs in Westchester and Fairfield counties. The market for retail space has also been generally stable, with rents rising modestly in most areas. Industrial markets, however, have generally strengthened: industrial vacancy rates have declined across upstate New York, northern New Jersey, and New York City and are at or near multi-year lows across most of the District. Industrial rents have been rising steadily across most of the District. While industrial construction has been subdued, office construction has picked up across northern New Jersey, upstate New York and particularly in Manhattan.

Other Business Activity

Manufacturing firms report that activity has been flat thus far in the second quarter. However, business contacts in most industry sectors report that activity has expanded moderately. The trucking industry has done particularly well, helped by reduced diesel prices and brisk demand, as well as catching up on transporting the backlog of goods from west coast ports. While manufacturing contacts report that input prices have been stable, service sector firms report upward pressure on input prices, as well as wages. However, both manufacturers and service firms continue to report that selling prices remain generally stable.

The labor market has shown signs of leveling off since the last report. Fewer contacts in both manufacturing and other sectors report that they are expanding employment, on net, though a sizable proportion of service-sector firms plan to expand employment in the months ahead. One major New York City employment agency reports that hiring activity has slowed somewhat from the brisk pace seen in March but that the job market continues to improve at a modest pace, with slight upward pressure on salaries. The pool of job candidates remains tight—particularly for IT workers—with one contact noting that candidates from outside the New York City area are deterred by high housing costs. A trucking industry contact also notes an ongoing widespread shortage of drivers.

Financial Developments

Small to medium-sized banks in the District report widespread increases in demand across all loan categories—particularly non-residential mortgages—while demand for refinancing was unchanged. Contacts indicate that credit standards remained unchanged across all loan categories. Bankers report a decrease in spreads of loan rates over cost of funds across all loan categories, except on consumer loans. Finally, bankers report widespread decreases in delinquency rates across all loan categories.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period. Staffing firms and other general service-sector firms continued to report a moderate pace of growth; auto sales grew moderately as well – a slight pick-up in pace from the prior reporting period. Nonauto retailers and contacts involved in both the construction and leasing of commercial real estate continued to report modest growth. Manufacturers, meanwhile, continued to report only slight growth, while transportation activity appeared to decline slightly. Brokers reported modest growth in regard to existing home sales, and residential builders reported mixed construction and sales activity. Reports from tourism contacts were generally positive with encouraging signs for a solid summer season.

Lending volumes appeared to accelerate to a modest pace of growth, and credit quality continued to improve. As in the previous Beige Book, contacts reported slight increases in wages and home prices. 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. New orders grew slightly, while shipments remained mostly flat. Gains in activity appeared to be stronger among the makers of industrial machinery, paper products, and rubber and plastic products; activity appeared weaker among the makers of primary and fabricated metal products. Contacts whose businesses are involved in natural gas and pipeline work noted negative impacts of low energy prices through decreased drilling activity and lowered capital expenditure budgets.

Expectations of business activity growth during the next six months have changed little since the last Beige Book report and remained positive at levels typical for an expansionary period. Additionally, firms had higher expectations of future employment and steady capital expenditures.

Retail. Retail sales grew modestly over the year, on average, according to Third District contacts. For area malls, April sales appeared to have been negatively impacted by an earlier Easter this year, which likely pushed back holiday-related purchases into March. An outlet mall operator reported moderate sales growth for April over the year but said that sales would have been higher if Easter had fallen later in the month. Regular malls reported a more negative impact. Year-over-year sales for April for regular mall retailers were down overall and for apparel; however, when combined with March sales, which were stronger, to account for the effect of the Easter shift, net sales were modestly positive. Contacts also reported restaurant sales increased moderately at both malls and outlet malls in April, which they attributed to nicer weather and more discretionary spending by consumers. Contacts continued to expect modest growth throughout 2015.

Auto dealers reported moderate growth in sales year over year, a slight pick-up in pace from the last reporting period. A Pennsylvania contact reported that sales in April were slightly better than last year, which itself was a strong year. Sales in New Jersey were flat through April over the year. One New Jersey contact showed little concern about the slower growth, noting that sales were strong in 2014 and current year-to-date statewide sales volumes are approaching record highs. Contacts cited anecdotal evidence suggesting strong sales in May in both Pennsylvania and New Jersey. Auto dealers remained optimistic for continued growth in 2015.

Finance. Third District financial firms have reported modest overall increases in total loan volume since the previous Beige Book. Strong growth was reported for commercial and industrial lending, credit card lines, and auto loans. Loans secured by real estate grew modestly, and other consumer credit lines declined slightly. 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 continued confidence in the quality of their loan portfolios. According to a mortgage servicing contact, the mortgage industry continues to normalize and lending standards appear to be loosening somewhat. Newer vintages of mortgages have not performed as well as vintages from a few years ago but continue to perform well historically. Contacts are generally optimistic for continued growth prospects in 2015.

Real Estate and Construction. Third District homebuilders have reported mixed conditions and little overall growth since the last Beige Book. Traffic remained disappointing through April, and contract signings were down. Moreover, homebuilders continued to report an absence of young first-time homebuyers. Contacts indicated that activity in May has been slow and inconsistent after having been stronger at the beginning of the year. Brokers reported that existing home sales slowed somewhat in April on a year-over-year basis throughout most of the larger urbanized areas of the Third District, including the Jersey Shore. An exception was the Greater Philadelphia area, where a broker indicated that the market was starting to fare better in April, with sales in the region improving on 2014 and 2013 – which had been a stronger year – as well. Further, pending sales increased in April, suggesting to him that the pipeline is picking up, though the active inventory of houses in the fastest-selling price points remains low. Overall, prices are rising slightly.

Nonresidential real estate contacts reported that construction and leasing activity continued at a modest pace. New construction continued to be driven by projects in downtown

Allentown and Philadelphia that include office, retail, and residential components. Throughout the Third District, industrial/warehouse projects and suburban office renovations remain active and 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 Philadelphia and have been spilling over into suburban areas, especially for Class A or better office space. Contacts remained optimistic for the ongoing growth of both new construction and leasing activity in 2015.

Services. Overall, Third District service-sector firms have continued to report moderate growth in activity since the previous Beige Book. Firms continued to report increases in new orders and sales, on net. A central Pennsylvania staffing contact reported that demand for services has remained consistently strong since the previous Beige Book, with hiring occurring across sectors, including health, education, and manufacturing. The contact noted some difficulty in finding enough qualified people to fill open positions and that the most in-demand skill is accounting. According to a transportation services analyst, even taking into account a temporary lull due to regulatory constraints, both trucking and rail activity looked weaker compared with a year ago. Several service-sector firms reported little or no wage pressures. Service-sector contacts continue to be optimistic that growth trends for their firms will remain positive over the next six months.

Third District tourist areas reported steady activity along with strong early booking activity heading into the summer season. Contacts reported strong rental rates for season resorts in southern New Jersey along the shore. Casinos that remain open in Atlantic City following last year’s downsizing are showing some improvement; although the overall number of visitors is slightly reduced, existing casinos have been able to realize higher occupancy rates. A Delaware banking contact noted that outlet shopping centers along the Delaware shore have seen elevated traffic counts and that a forecast for a below-average hurricane season this year is encouraging for summer shore activity.

Prices and Wages. The overall price level has continued to increase slightly since the previous Beige Book period. Nonmanufacturing firms continued to report increases in the prices they pay for inputs and the prices received for their goods and services. Furthermore, the share of firms reporting higher prices for their goods and services has grown notably since the prior period. Most manufacturing firms reported steady input prices and prices for their own products. Contacts reported expectations of stable prices for food and commodities. Most contacts, including those from staffing firms, continued to note little significant change in wage pressures.

FOURTH DISTRICT – CLEVELAND

On balance, the Fourth District's economy expanded at a slight pace since our last report. Activity at manufacturing plants was mixed. Nonresidential building contractors reported a strong boost in activity; homebuilders saw a mild pickup in single-family starts during April following a slow first quarter. Retail sales were marginally higher than those of a year ago, while new car sales fell slightly year-over-year. Activity in the Marcellus and Utica Shales leveled out after a sharp decline in the first quarter. Most freight haulers indicated that volume has softened over the period. The demand for business and consumer credit continued to move slowly higher.

Payrolls were little changed on net. Staffing firms reported a pickup in the number of job openings in healthcare, IT, and manufacturing. However, job placements did not keep pace because of difficulty in finding qualified applicants, especially for technical positions. Upward pressure on wages is limited to experienced and technically skilled personnel. Overall, input and finished-goods prices were steady. We heard reports about declines in prices for steel, beef, and dairy products, and rising prices for some building materials and diesel fuel.

Employment and Wages. The pace of hiring is expected to be modest across industry sectors this year, with some bias toward replacement. Newly created positions typically require a higher-level skill set than in the past. The average increase in wages and salaries is expected to be about 2 to 3 percent; however, firms are increasing wages in selected occupations at a much higher rate than for the labor market as a whole. High-skilled workers have enough confidence in the job market that they are not hesitant about moving from one employer to another. As a result, firms are increasing budgets for retention initiatives. Since younger workers show a greater propensity for changing jobs, several contacts indicated that they are increasing wages of new hires at a faster pace than for continuing employees in order to support retention of these workers. Firms typically are absorbing the higher labor costs as opposed to attempting a pass through to customers.

Manufacturing. Factory contacts reported that demand was little changed during the past six weeks. Suppliers to the aerospace, motor vehicle, and construction industries continue to see strong or strengthening demand. One contact noted that his customers are returning to normal buying patterns since petroleum-based raw material prices began stabilizing. Factors tempering growth include exposure to weakening foreign markets, a downturn in the oil and gas industry, and a strong dollar. The near-term outlook for business prospects was mixed. While some producers expect strong growth, an equal number anticipate weakness or a decline compared to that of a year ago. The steel industry is still struggling because of declining prices, a strong dollar, and rising imports, especially from China. Nonetheless, the underlying domestic demand for steel was characterized as good, but flat. Steel producers and service centers see little change in the coming months. Year-to-date auto production at District assembly plants through April fell 3 percent below the prior year level.

A sizeable number of our contacts indicated that they have increased their capital budgets over the period. Monies are being allocated primarily for equipment (machinery and IT) and maintenance projects. One manufacturer noted that anticipated changes to the tax code are a bigger impediment to capital spending than are interest rate increases. Input prices were mainly flat or lower. Contacts cited price reductions for iron and steel, petroleum-based products, and energy. Producers were reluctant to pass through lower input prices to customers.

Real Estate and Construction. Year-to-date sales through March of new and existing single-family homes were moderately higher as compared to those of the same time period in 2014. The average sales price rose about 7 percent. First-quarter single-family construction starts were down compared to those of a year-ago; however, builders reported that housing starts picked up in April. New-home contracts remain concentrated in the move-up price point categories. Prices are trending higher because of rising labor costs and lower existing-home inventory. Several builders commented that the market for spec homes exists, but because of capacity constraints and difficulty obtaining construction financing, it is difficult to increase their inventory. Despite this, homebuilders remain optimistic. They predict new-home sales for all of 2015 will rise on average about 15 percent on a year-over-year basis. Homebuilders also believe that the expectation of higher interest rates should serve as an impetus for potential buyers to sign purchase contracts. One builder remarked that while the labor market is strengthening, it is not yet at a point that will generate a significant number of new-home contracts.

Nonresidential contractors reported a strong boost in activity over the period, with a bias toward private work. On balance, the number of inquiries has increased. General contractors reported that their margins are increasing. Labor capacity was frequently mentioned as a factor that will restrain growth going forward. Backlogs were characterized as strong or strengthening. Demand is greatest for office space, industrial structures, multifamily housing, and university construction. Financing is more readily available to successful developers than it has been in the recent past.

Capital spending by general contractors was mainly for technology, new equipment, and maintenance. Materials prices were stable during the past six weeks. Over the course of the year, builders anticipate input price increases of about 3 percent, primarily for concrete, wood, and fabricated metal products. Subcontractors remain busy. They are being challenged by a labor shortage and as a result are more selective when bidding. Subcontractors are pushing through rate increases, which they attribute to capacity constraints and a need to raise margins.

Consumer Spending. Reports on retail sales were mixed. Contacts experiencing higher revenues over the period attributed them to lower gasoline prices and improvements in the weather and job market. That said, an apparel retailer noted that weak wage growth is a barrier to accelerated consumer demand. Some contacts reported that they are still being negatively impacted by residual effects of the west coast port strike. Product lines in highest demand included women's apparel, home furnishings, and health and wellness products. Same store revenues were marginally better than they were a year ago. Third-quarter sales are expected to be slightly above those of a year ago, with a higher rate of growth projected for on-line sales versus brick-and-mortar sales. Vendor and shelf prices were mainly stable. Restaurateurs reported rising demand by customers for more expensive, but locally produced products. Although there is downward pressure on beef and dairy prices, some food retailers have raised prices in response to rising employee healthcare costs. Capital spending was mainly for e-commerce operations and existing-store maintenance and remodeling.

Year-to-date sales of new motor vehicles through April were slightly below those of a year ago. A strong consumer preference for SUVs and light trucks continued. New inventory is somewhat light because of production cutbacks. After lower-than-expected sales during the past couple of months, dealers are projecting strong sales during the summer and anticipate that unit volume for the year will be on par with that of 2014. Year-to-date pre-owned vehicle sales are moderately higher compared to last year's, a situation which was attributed to an increase in lease turn-ins. Credit unions and OEM captive finance operations are becoming more aggressive in financing new-car purchases.

Banking. Business loan portfolios expanded, but at a slow pace. Demand was strongest for C&I and CRE loans. Bankers reported that rising confidence in the economy provided the impetus for higher capital spending by manufacturers and moving ahead with construction projects. Some strengthening in consumer credit demand was reported. Auto lending remains strong, and there has been an increase in the use of home equity products. Interest rates for business and consumer credit were stable. Most of our contacts noted a seasonal increase in their residential mortgage business, which was heavily weighted toward new home-purchase. Delinquencies slowly trended lower from already low levels. No changes were made to loan-application standards. Core deposits remain strong. One banker observed that consumers and small businesses are cautious about borrowing and have learned the value of liquidity. Banks' capital spending was primarily for technology and building maintenance.

Energy. Little change in District coal production was reported. Spot prices for steam and metallurgical coal declined since our last report. The number of drilling rigs operating in the Marcellus and Utica Shales leveled out in April, after declining about 25 percent since late last year. Natural gas production remains at a high level, but the pace of growth is declining. We heard reports about a potential drop in wellhead prices as a result of storage levels above what is typical for this time of year. Otherwise, wellhead prices are holding within a narrow range. After adjusting capital budgets downward earlier in the year, spending is on plan, with monies being allocated mainly for maintenance projects and equipment. Reports indicate a more broad-based decline in prices for materials and equipment over the period.

Freight Transportation. Reports on freight volume were mixed. While a few contacts continue to operate at high levels of capacity utilization, most freight haulers reported that volume has softened over the period. They believe that markets generally are not as robust when compared to the fourth quarter, and they cited the downturn in the steel, and oil and gas industries. Growth was seen in intermodal transportation and the transport of seasonal products. The outlook for the next few months is uncertain. Fleets continue to aggressively replace older equipment. Little change in costs was noted other than an increase in diesel fuel that was passed through via the surcharge. A strong pricing environment was attributed to capacity issues. A driver shortage continues to put upward pressure on the driver pay scale across the industry.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy grew at a measured pace since the previous report. Growth in manufacturing shipments and new orders leveled off, although expectations for the months ahead remained positive. Retail sales were also little changed on balance; however, revenues strengthened at non-retail services firms and tourism picked up. Loan demand increased moderately. Residential real estate buyer traffic was steady and commercial real estate activity increased modestly. Agricultural conditions improved and planting moved ahead. Energy production was soft. The demand for labor increased modestly.

According to our most recent surveys, manufacturing and service sector hiring improved slightly in recent weeks, while average wages rose. Manufacturing prices paid accelerated slightly, while prices of finished goods rose more slowly. Retail prices grew moderately faster, and prices were little changed at non-retail services firms. Energy prices were flat to lower.

Manufacturing. Manufacturing activity remained tepid overall since our last report. Growth in shipments and new orders leveled off, although expectations for the months ahead remained positive. A furniture manufacturer in southern Virginia reported no change in shipments, but his volume of new orders rose due to strong demand from the annual furniture market. A manufacturer of dental products in North Carolina reported a vast improvement in sales since our previous report, partly due to new customer growth. Additionally, a North Carolina textile company reported that production for auto-related business was very good in the last month. A business contact said manufacturing activity in West Virginia was mixed, noting that shipments had increased for some steel, plastics, and rubber manufacturers, but remained flat for a fabricated metal producer and a chemical manufacturer. On the other hand, a Maryland pipe manufacturer stated that business was soft in the past month, with slower growth in new orders and shipments. An executive at a fabricated metal product company in South Carolina reported that sales decreased in recent weeks. According to our most recent survey, prices of raw materials rose at a somewhat faster pace, while price growth of finished goods slowed slightly.

Ports. Port officials reported stronger import volumes in the weeks since our last report, although exports have weakened. Container traffic continued to grow at a brisk pace. According to one port official, core exports, such as automotive components, remained solid but are not growing overall, owing at least in part to the strong dollar. However new business has increased in agricultural exports such as soybean meal and wheat being shipped to developing nations. Imports of roll-on, roll-off cargo are up slightly year-over-year at another port. District ports continued to get some West Coast diversions and overflow from congested ports.

Retail. Retail sales were little changed on balance since the previous Beige Book, with scattered reports of strength. On the positive side, the manager of a West Virginia sporting goods store said he had a good spring and recent efforts to control inventory had reduced year-over-year levels. However, he continued to face online competition from his suppliers. Sales of cars and light trucks remained robust. According to a dealer in the Washington beltway area, his firm has increased inventory and is hiring staff to keep up with the increase in demand. Prices in the retail sector rose moderately faster since the prior report.

Services. Revenues strengthened at non-retail services firms in the weeks since the previous report. Executives at healthcare systems said that demand for services remained strong. Revenues increased for professional, scientific, and technical firms, such as engineering and architect services. A partner in an accounting firm reported that demand for services remained constant at solid levels. Trucking firm executives reported only a slight seasonal uptick in demand. Services prices increased at a relatively steady pace.

Tourism picked up since the prior report. An hotelier in western North Carolina said tourism in his region "has been booming;" bookings were strong and reservations for the end of this season were also slightly ahead of a year ago. On the outer banks of North Carolina, bookings were solid, with numerous events planned. Moreover, several new, year-round businesses have opened. The manager of a resort hotel in western Virginia reported current bookings were seasonally flat while late summer bookings were solidly up year-over-year. A few contacts reported increased competition from new hotels. Room rates and rental rates increased modestly at a few locations.

Finance. Loan demand increased moderately since our previous Beige Book. Residential mortgage demand rose across much of the District, although a West Virginia lender said demand was flat. A central Virginia banker noted that his increased activity stemmed from existing home sales and lot closings. Demand for residential refinance loans slowed in Virginia and West Virginia. Reports on commercial lending were mixed. Construction and development lending picked up according to executives in Maryland, Virginia, and South Carolina, particularly for government, education, and medical facilities as well as church expansions. Commercial and industrial lending, however, was reported as flat in South Carolina and West Virginia. Regulatory burdens, especially for commercial lending, were cited by several contacts as damping growth prospects. Credit quality was widely reported as stable, except in West Virginia where quality declined slightly. Credit standards were also largely unchanged, although a Virginia lender said that conventional mortgage guidelines had relaxed somewhat. Interest rates were reported to be marginally lower in Maryland and Virginia, while upward rate pressure was reported in West Virginia.

Real Estate. District housing market activity increased at a moderate pace since the previous report. Realtors reported steady buyer traffic and a slight improvement in housing inventories. Average sale prices increased slightly in some markets while days on the market varied. A broker in Richmond stated that the spring market has been strong in certain areas and there are more new construction transactions. Additionally, a residential builder in Maryland reported that activity in recent weeks had been very good, with a solid number of sales and increased prices. A Realtor in Fredericksburg, Virginia reported strong demand for single-family townhomes and a contact in Richmond reported increased condo sales. Multifamily leasing and construction activity remained steady throughout the District, with reports of higher rental rates.

Commercial real estate market activity increased modestly since the previous report. Several Realtors reported that rental rates firmed up since our previous report. Vacancy rates decreased modestly in Washington D.C., Richmond, Baltimore, Charlotte, Hampton Roads, and Charleston, South Carolina. However, vacancy rates were mostly unchanged in Charleston, West Virginia and in Virginia Beach. Sales of retail space improved in Virginia Beach, weakened in Baltimore, and were unchanged in Washington D.C., with most of the activity in smaller spaces. A broker in Richmond reported that sales activity increased. Additionally, a contact in Charlotte stated that sales and sale prices rose since our previous report. A commercial real estate contact in Baltimore said that the market there has picked up; he noted that sales of office buildings increased downtown and that the medical office sector remained strong. A broker in Hampton Roads reported that condo construction and commercial sales have increased.

Agriculture and Natural Resources. Since our previous Beige Book, agriculture contacts reported improved business conditions. Farmers in South Carolina, North Carolina, and Virginia said that the previously wet conditions from the late spring improved, and in some cases reversed to dry conditions. A nursery executive in Virginia stated that the late arrival of spring weather had a small negative effect on planting timelines, but his six-month outlook is positive. Planting started for corn and soybeans, while hay harvesting has begun. Softwood and hardwood forestry products grew on trend. Low crop prices persisted for cotton, wheat, and soybeans, while corn prices continued to decline.

Natural gas production was unchanged since our previous report and prices declined. Coal production decreased, although the pace of decline slowed in northern West Virginia. Coal prices were unchanged.

Labor Markets. Since our previous Beige Book, the demand for labor increased modestly. In particular, demand picked up for accountants, administrative professionals, IT workers, nurses, supervisors and managers, and skilled tradespeople. Typical seasonal hiring in leisure and hospitality has begun, according to a staffer in Maryland. On the outer banks of North Carolina, demand for these workers exceeds supply. A staffing agent in South Carolina said that employers were making hiring decisions more quickly and converting temporary workers to permanent with shorter tryout periods. Conversely, employment declined in West Virginia’s coal and gas industries. Throughout the District, contacts reported problems finding employees with both hard and soft skills. For example, manufacturers in Virginia and South Carolina said it was difficult to find programmers and machinists, while employers in Virginia and West Virginia struggled to find employees with a good work ethic. Slight upward wage pressures continued throughout the District, specifically for those positions in highest demand. A Virginia resort manager said that tightening labor markets have put upward pressure on hotel workers' wages; he plans to raise wages again this summer. According to our most recent surveys, hiring in manufacturing and the overall service sector strengthened slightly, while average wages in both sectors rose moderately.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts reported economic activity continued at a steady pace from April to May. The outlook among contacts remains optimistic with most firms expecting either the same or a slightly higher level of growth for the remainder of the year.

District merchants continued to note a softness in sales growth over the reporting period. Auto sales increased, particularly for light trucks and larger vehicles. The tourism sector saw a pickup in activity. According to residential real estate contacts, new and existing home sales were slightly up, inventories were down, and home prices modestly appreciated compared with a year ago. Commercial real estate contacts noted demand continued to improve and nonresidential construction increased from a year ago. Purchasing managers in the manufacturing sector cited notable increases in new orders and production. Banking contacts indicated that there was ample credit available to qualified borrowers and overall loan demand continued to grow. District firms continued to add to payrolls; however, reports of difficulties filling a range of positions persisted. Wage and non-labor input cost pressures remained subdued.

Consumer Spending and Tourism. District retailers continued to experience softness in sales growth from April to May. On balance, contacts indicated that the expected increase in consumer spending due to the decline in gasoline prices had yet to materialize. Some retailers noted inventory challenges resulting from the labor dispute at west coast ports. Auto dealers, on the other hand, reported increased sales of light trucks and larger vehicles, which they attributed to lower gasoline prices. The outlook among District merchants remains generally optimistic.

Reports on tourism and business travel were positive. Florida, Georgia, and Louisiana reported strong occupancy rates at hotels and resorts. Hospitality contacts continued to report increasing capital expenditures on infrastructure as well as strong advanced bookings of hotel rooms and conferences going into the summer season.

Real Estate and Construction. District brokers continued to report improvements in home sales activity. Many contacts reported that home sales were slightly up compared with the year earlier level. 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 report modest home price appreciation, and they expect home sales activity to increase over the next three months.

Incoming signals from District builders improved. Most builders characterized construction activity as flat to up slightly from the year-ago level. New home sales activity and buyer traffic was also described as slightly up from a year earlier. The majority of builder contacts indicated that their inventory of unsold homes was down from a year ago. Most builders reported some degree of home price appreciation. The outlook among builders for new home sales and construction activity over the next three months remained positive, with the majority indicating that they expect activity to increase.

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

Manufacturing and Transportation. District manufacturing contacts indicated that business activity expanded since the last report. New orders and production were notably higher, and employment levels continued to increase. Supplier delivery times for inputs were slightly longer than the previous period and finished inventory levels rose slightly. The outlook remained similar to the previous report, with a little less than half of purchasing agents expecting production levels to be higher over the next three to six months.

District transportation contacts continued to report varying levels of activity during the reporting period. Ports continued to report strong growth in containerized, bulk, and break-bulk cargo. Railroad contacts reported that total traffic, as compared with a year ago, was flat to slightly down. Trucking activity expanded as compared with year earlier levels. Most contacts expect higher levels of activity over the course of the year.

Banking and Finance. On balance, bankers described credit conditions as unchanged from April to May. Credit remained readily available for qualified borrowers. Contacts reported increased loan demand attributed to an improved business climate rather than anticipation of higher interest rates in the near future. Competition between some lenders resulted in looser lending standards. Pricing for both commercial and consumer loans was extremely competitive as many financial institutions strived to grow their loan portfolios. Auto lending continued to grow at a steady pace.

Employment and Prices. Many businesses reported that they added to payrolls, generally in response to increased demand or expectations of higher sales growth. Contacts noted that employee retention was becoming a challenge, as a growing number of employees were being recruited away by other firms or leaving for different jobs. Firms continued to cite difficulties filling positions in professional and skilled roles, and some contacts also reported challenges filling lower-skilled, entry-level positions. The outlook for employment remains positive, with many firms indicating plans to hire over the next twelve months.

Wage pressures remained muted, despite a growing expectation that compensation may have to be adjusted in the future to retain and attract workers. Employers were closely watching how the recent minimum pay announcements from a number of high-profile employers would affect local labor markets. Non-labor input cost pressures remained subdued, helping to support ongoing improvement in profit margins. According to the Atlanta Fed's survey of business inflation expectations, unit costs are expected to increase 1.9 percent over the coming year, up from 1.7 percent earlier in the year.

Natural Resources and Agriculture. Reductions in drilling activity attributed to oil price declines continued to impact District oil and gas support services, leading to decreased business activity and a pickup in layoffs. Contacts continued to cite delays in investment of industrial refining and onshore drilling projects, specifically ones that had not already begun.

Significant rain alleviated drought conditions in much of the District. Florida's orange forecast was below both the previous month's reading and last year's production level, primarily due to citrus greening. Some Alabama producers reported planting less cotton in favor of crops commanding better prices or crops that cost less to produce (such as soybeans and peanuts). By mid-May, soybean planting was ahead of the five-year average in Louisiana, Mississippi, and Tennessee. Cotton planting in Alabama and Georgia and rice planting in Louisiana and Mississippi were short of their five-year averages.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District remained moderate in April and early May, 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 at a somewhat slower pace. Credit conditions improved some. Cost pressures generally changed little, with low prices for most raw materials and a slight increase in wages. Overall, crops prices fell and livestock prices rose.

Consumer spending. Growth in consumer spending was moderate in April and early May. Contacts reported strong sales in the restaurant, entertainment, and sporting goods sectors, while the seasonal pickup in home furnishings and lawn and garden equipment came in as expected. Relatively slower growth persisted in apparel and food and beverages. Sales at high-end and discount stores were stronger than at traditional middle-market stores. New and used vehicle sales continued at a strong pace, and the pace is expected to persist through 2016. Despite recent increases, relatively low gas prices continued to shift the sales mix from cars to light trucks and SUVs.

Business spending. Growth in business spending remained moderate. Most manufacturers and retailers reported comfortable inventory levels. Exceptions included steel service centers, where stocks remained elevated because of the large volume of imports in the beginning of the year, and auto dealers that sell high volumes of cars, where inventories were elevated because of the shift in demand towards light trucks. The pace of capital spending picked up somewhat and plans for the next six to twelve months continued to indicate steady growth in expenditures. Outlays were again primarily for replacement of industrial and IT equipment, though many contacts also reported spending for capacity expansion. Of those currently expanding capacity, most reported that increased demand was motivating the increase, though many also said the increase was a by-product of replacing obsolete equipment with newer capital. Employment growth picked up some since the last reporting period and contacts continue to expect moderate growth over the next 6 to 12 months. Many contacts said it was becoming more difficult to retain employees. In addition, a staffing firm reported steady demand for its services, with ongoing difficulty filling openings with qualified workers. Contacts continued to indicate that demand was strongest for skilled workers, particularly for many occupations in professional and technical areas and in skilled manufacturing and building trades.

Construction and real estate. Construction and real estate activity increased modestly on balance over the reporting period. Demand for residential construction ticked up across all sectors, but some contacts questioned whether the strong pace of multi-family construction can be sustained. Pent-up demand from the winter weather resulted in a modest increase in home sales despite a tight supply of new listings, particularly in the entry-level single-family market. Residential rents and home prices were up slightly. Nonresidential construction activity was somewhat higher, driven by demand for industrial buildings and offices. Commercial real estate activity grew at a strong pace, particularly in urban centers and select suburbs. Contacts reported that new hotel and office developments in downtown Chicago were forcing retailers to relocate, and that in the best locations retail rents and occupancy rates were at all-time highs.

Manufacturing. Manufacturing production continued to grow at a moderate pace in April and early May. The auto industry remained a source of strength for the District, with contacts citing improvements in the labor market and low gasoline prices as bolstering demand. Growth in the aerospace industry also remained strong. Capacity utilization in the steel industry picked up from the previous period as imports slowed. However, steel service centers' order volumes remained low. Specialty metals manufacturers reported slight gains in new orders, with the exception of those supplying the oil and gas industry, who continued to experience slowing orders. Sales of heavy trucks grew steadily, supported by low diesel fuel prices and improvements in the overall economy. Demand for heavy machinery continued to grow slowly, with steady demand for construction machinery offset by weak demand for agricultural and mining equipment. Manufacturers of construction supplies again reported slow but steady growth. Contacts across sectors with significant overseas exposure noted that the strong dollar was hurting sales.

Banking/finance. Credit conditions continued to improve over the reporting period. Financial market volatility remained low and credit spreads declined slightly. Contacts reported a small uptick in business loan demand and credit line utilization from both small and large firms. Middle market loan demand was weaker, especially from those in the oil and gas industry, although demand for owner-occupied commercial real estate and equipment financing remained strong. Consumer loan demand flattened, except for mortgage originations, which increased slightly. Mortgage rates increased over the reporting period, leading to a decline in mortgage refinancing volume. Multiple contacts cited low home equity loan utilization as evidence that consumers are continuing to deleverage. Pricing competition for prime and super prime auto loans remained strong amid steady auto loan demand. Consumer credit quality improved slightly.

Prices/costs. Overall, cost pressures changed little in April and early May. Energy prices were up slightly, but remained low. Steel and other primary metals prices also remained low, and retail prices were little changed. Food prices overall continued to decline slightly, and price increases for fresh meat and dairy products cooled somewhat. Wage pressures increased slightly. Some retail contacts noted higher minimum wages as well as the planned wage increases by major retail chains, while contacts across industries reported a willingness to raise wages when necessary to attract workers as well as to retain their most productive employees. Wage pressures continued to be more pronounced for high skilled workers than for low skilled workers.

Agriculture. Corn and soybean planting proceeded rapidly, exceeding the pace of last spring. The emergence of corn and soybean plants was generally ahead of the five-year average. Although precipitation has been adequate for most of the District, there were drought conditions in some parts of Wisconsin. The good start to the year raised expectations of a big fall harvest and helped push corn and soybean prices lower. Strong production pushed milk prices lower, yet some dairy product prices were higher, especially butter. Hog prices increased from their recent lows, as supplies became tighter due to a seasonal decline in production. Cattle prices remained high. Poultry flocks, especially egg layers in Iowa, were hit hard by bird flu, and egg prices increased in response.

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 mostly positive on net with both retailers and auto dealers reporting increased sales. A survey of Eighth District businesses indicated that wages grew moderately, employment growth was modest, and prices charged to consumers were generally unchanged. Overall residential and commercial real estate market conditions improved in most parts of the District. A survey of District banks showed moderate improvement in overall lending activity. Finally, spring plantings in the southern portion of the District recovered thanks to drier weather.

Consumer Spending

Consumer spending grew at a modest rate since the previous report. In Little Rock, retailers and restaurateurs reported that seasonal sales and catering orders were higher than one year ago; a high-end jeweler reported that luxury goods are faring well and has made plans to increase inventories. In Memphis, a major sporting goods retail facility opened in late April. Multiple contacts in the hospitality industry report increasing travel demand in the District. However, the convention center in Louisville announced that it will close in late summer for two years for renovations and expansion.

Auto dealers reported increased year-over-year sales, on net. About half of dealers reported selling more high-end cars than low-end cars; the rest reported no change in the composition of automobiles sold. While a majority of auto dealers reported that sales of SUVs or trucks increased relative to other models, a sizable minority stated that low gas prices had little to no effect on overall sales.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been mostly positive since our previous report. Several manufacturing companies reported plans to add workers, expand operations, and/or open new facilities, while a smaller number reported layoffs. Firms in transportation equipment, furniture, food and beverage, and machinery manufacturing plan to hire new employees and expand operations. In contrast, firms that manufacture wood products and primary metals reported plans to lay off workers or close facilities. News from plastics and rubber products manufacturers was mixed, with District firms reporting both positive and negative outlooks for hiring.

Reports of plans in the District's service sector have been mixed since the previous report. Firms that provide warehousing and storage reported new hiring and expansion plans. In contrast, several firms in air transportation and technical services plan to lay off employees. Firms that provide administrative services, truck transportation, and healthcare reported both layoffs and new hires.

Employment, Wages, and Prices

Sixty percent of contacts indicated wages were higher during the past three months than during the same period last year; the remaining contacts indicated that wages remained about the same. Half of contacts reported that employment during the past three months was unchanged from the same period last year, while 40 percent reported employment was higher or somewhat higher, and the remainder indicated a slight decline. Two-thirds of hiring managers are actively looking for employees, mainly for professional, technical, sales, and administrative positions. Fifty-eight percent of contacts reported that prices charged to customers were about the same during the past three months relative to last year, while 26 percent reported an increase in prices and 16 percent reported a decrease. The majority of contacts reported they are not raising prices to offset higher labor compensation costs.

Real Estate and Construction

Home sales increased in the Eighth District on a year-over-year basis. April 2015 year-over-year home sales were up 10 percent in Louisville, 11 percent in Memphis, and 16 percent in St. Louis. By contrast home sales decreased 8 percent in Little Rock. Contacts in the District expect the demand for single-family homes to stay the same or increase in the next quarter. Contacts noted that residential construction activity was slightly higher than in previous months and expect this trend to continue in the next quarter.

Commercial and industrial real estate market conditions were positive throughout most of the District. Contacts across the District noted tight office market conditions in class A space. Contacts in Louisville noted that many firms have outgrown their current office space and expect rent growth to accelerate in the second half of 2015. Commercial and industrial construction activity continues to be positive throughout most of the District. Contacts across the District reported an increase in speculative industrial space.

Banking and Finance

A survey of District banks showed moderate improvement in overall lending activity over the past three months. For commercial and industrial loans, credit standards eased somewhat, creditworthiness of applicants improved, demand was slightly stronger, and delinquencies were lower. For residential mortgage loans, credit standards were unchanged, demand was modestly stronger, creditworthiness of applicants improved, and delinquencies were lower. For credit cards, standards were slightly higher, demand was lower, creditworthiness of applicants was mostly unchanged, and delinquencies were lower. For auto loans, credit approval standards were unchanged, demand was unchanged to slightly higher, delinquencies were lower, and creditworthiness of applicants improved modestly.

Agriculture and Natural Resources

District agricultural bankers expect farm income, capital spending, farmland values, and cash rents to decline on a year-over-year basis in the second quarter of 2015. As of early May, District planting progress had recovered from weather-related delays experienced earlier. In particular, planting progress rates exceeded the 5-year average for corn, cotton, rice, sorghum, and soybeans. An Arkansas poultry farmer noted dark meat exports were down substantially. The farmer attributed the decline to international fears resulting from instances of the avian flu found outside of the District. District coal production continued to fall behind in April with 7.4 percent fewer tons produced than in the same month last year. Year-to-date production is 5.7 percent lower than at the same time last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy showed signs of moderate growth since the previous report. Increased activity was noted in consumer spending, tourism, commercial construction, and professional services; residential real estate activity grew at a brisk pace. Activity was flat in manufacturing, residential construction, and commercial real estate, while activity decreased in energy and mining, and agricultural conditions were mixed. Labor markets tightened further since the last report. Wage increases remained mild, with some signs of increased wage pressures; with the exception of gasoline, prices were relatively stable.

Consumer Spending and Tourism

Consumer spending increased moderately. According to a recent survey of District business leaders conducted by the Minneapolis Fed, 40 percent of respondents noted that retail spending increased over the past three months, while 12 percent reported that sales had decreased. Recent same-store sales at a retailer in Minnesota increased slightly from a year earlier, and sales at a mall in North Dakota were about even with a year earlier. Vehicle sales in Minnesota in 2015 are expected to exceed last year’s levels, according to an auto dealers association. However, retailers in the energy-producing areas of western North Dakota reported slower traffic and sales during the past two months, as drilling activity slowed.

Travel and tourism increased from last year. Recent tourism activity was above year-ago levels in northwestern Wisconsin, according to an official. A travel agency in Minnesota noted that leisure travel bookings for March and April were up over 10 percent; summer bookings were looking strong with many higher-end trips planned. However, hotel occupancy rates in western North Dakota were lower than a year earlier, and passenger totals at North Dakota airports dropped 3 percent in March compared with a year ago.

Construction and Real Estate

Commercial construction activity increased. In Sioux Falls, S.D., the value of April commercial permits increased from a year ago. In Billings, Mont., commercial permits significantly increased in value in April from a year earlier. Residential construction activity in the District was level overall. In the Minneapolis-St. Paul area, the value of April residential permits increased slightly compared with April 2014. In western North Dakota, recent residential construction continued at a solid pace. April single-family residential building permits in Billings decreased slightly in value from the previous year. The value of April residential permits in Sioux Falls decreased from a year earlier.

Activity in commercial real estate markets was steady since the previous report. A commercial real estate analytics firm noted that first-quarter 2015 industrial and retail vacancy rates in Minneapolis-St. Paul dropped slightly from the end of 2014. Residential real estate activity increased at a brisk pace from a year ago. Compared to a year ago, western Wisconsin home sales increased 25 percent in April, and the median sales price rose 12 percent. Also, Minnesota home sales were up 20 percent in April, the inventory of homes for sale was flat, and the median sales price rose 12 percent. In the Sioux Falls area, April home sales were up 4 percent, inventory decreased 14 percent, and the median sales price increased 1 percent relative to a year earlier.

Services

Activity at professional business services firms increased since the previous report. For instance, a developer of training software noted a recent increase in sales, a recruiting firm noted that recent growth was faster than the pace of the past few years, and an architectural firm noted that recent bidding activity was stable. Rural hospitals and specialty clinics reported expansions in service offerings from a year ago. A hospital administrator in Minnesota noted that demand for services increased due to broader insurance coverage.

Manufacturing

District manufacturing was level since the last report. An index of manufacturing activity released by Creighton University (Omaha, Neb.) increased in April from the previous month in Minnesota and South Dakota; the index fell in North Dakota, but was at levels consistent with slight growth in all three states. A recreational vehicle maker announced plans for expansions in two locations, and a producer of truck accessories announced a facility expansion. Meanwhile, a plant that produces industrial gas-processing equipment shut down, citing reduced demand. Some contacts noted a deceleration in industrial capital investment in response to the recent increase in the dollar’s exchange value. Among manufacturing respondents to the District business leader survey, 29 percent reported that the dollar’s rise had decreased sales; however, most noted that sales were unchanged.

Energy and Mining

The slowdown in the energy and mining sectors continued. The District drilling rig count fell further since the last report. In a survey of District energy services firms conducted in March, 75 percent of respondents reported that revenues decreased compared with a year earlier, and half reported that capital expenditures decreased. Output at mines producing sand for hydraulic fracturing was expected to decline this year; one facility was idled in Wisconsin. Contacts noted that copper mines have cut planned capital expenditures. A Minnesota iron ore processing facility recently filed for Chapter 11 bankruptcy protection.

Agriculture

District agricultural conditions were mixed in early spring. Progress in crop planting was well ahead of its five-year average in District states. While dry conditions persisted in some areas, drought conditions abated in much of the District owing to heavy precipitation in recent weeks. According to results of the Minneapolis Fed's first-quarter (April) survey of agricultural credit conditions, 79 percent of respondents said farm incomes fell in the previous three months, with a similar outlook for the second quarter. The outbreak of avian flu was expected to cost Minnesota turkey producers more than $300 million. Prices received by farmers in March decreased from a year earlier for corn, soybeans, wheat, hay, milk, chickens, and hogs; prices for eggs and cattle increased.

Employment, Wages, and Prices

Labor markets tightened further since the last report. According to an ad hoc survey by the Minneapolis Fed, 39 percent of respondents reported that their ability to retain employees has decreased over the past 12 months, while 3 percent said it has improved. A survey of Minnesota small-business owners indicated that respondents expect hiring to be similar to last year. A survey of Minnesota manufacturers also found that hiring plans for the upcoming year are similar to a year ago, with about two-thirds of respondents expecting their staff levels to remain the same; attracting qualified candidates to fill vacancies was described as difficult by 71 percent of respondents, compared with 67 percent in last year's survey. A new distribution center in Minnesota is expected to employ 1,000 people, and a window maker plans to hire 300 workers as part of an expansion. In contrast, a food processing plant will temporarily lay off over 200 employees and a food manufacturer will lay off 100 workers. Online job openings in the energy-producing area of North Dakota were down 23 percent in April compared with a year earlier.

Wage increases remained mild, with some signs of increased wage pressures. About a quarter of respondents to the Minneapolis Fed's ad hoc survey were raising starting pay for most job categories to attract new hires. Three health care systems in Minnesota have agreed to a minimum wage of $15 per hour under recent contract agreements.

With the exception of gasoline, prices were relatively stable. Metals prices were about level since the previous report. However, mid-May Minnesota gasoline prices were about 30 cents per gallon higher than at the beginning of April but were still 75 cents per gallon lower than a year ago.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District grew slightly overall in April and May but with mixed conditions across sectors. Consumer spending rose moderately, and transportation and wholesale trade firms reported stronger sales activity. District real estate activity continued to increase at a modest pace, with positive expectations for coming months. Professional and high-tech contacts noted a moderate increase in activity from previous months, and bankers reported a slight rise in loan demand and declining deposits. District manufacturing activity declined sharply, and substantial weakness in the energy sector persisted. Farm income levels declined from the previous survey period, although crop conditions improved. Prices rose slightly in most industries and wage growth was steady, with many firms indicating plans to increase wages over the next year.

Consumer Spending. Consumer spending activity rose moderately and remained higher than a year ago, with solid expectations heading forward. Retail sales picked up in April and May and were considerably higher than year-ago levels. Several retailers noted an increase in sales for building materials and home improvement products, while sales of luxury and custom-made items remained weak. Expectations for future sales were strong, and inventory levels were expected to pick up slightly. Auto sales increased moderately and were up compared to last year, with further growth expected in the months ahead. Dealer contacts noted a particular increase in sales of used vehicles, while sales of large trucks and SUVs slowed slightly. Auto inventories rose from the previous survey, and most contacts expected levels to continue to increase. Restaurant sales remained moderately weak and below year-ago levels, although contacts anticipated positive growth in coming months. District tourism activity was strong in April but moderately weaker in May as the winter season wound down and spring storms increased. Tourism contacts expected sluggish growth for the months ahead.

Manufacturing and Other Business Activity. Manufacturing activity declined sharply in April and May, while other business activity was considerably more positive. Manufacturing production contracted at the sharpest pace since mid-2009, and producers' expectations for future activity also fell moderately. The downturn was mostly attributable to declines in plastics, food, and aircraft production and further weakness in metals and machinery products. Production fell most sharply in energy-producing states like Oklahoma and New Mexico, but it was also down in most other District states.

Manufacturers' capital spending plans fell from the previous survey, and export orders remained weak. Transportation and wholesale trade firms reported stronger activity than in the previous survey, with sales considerably above year-ago levels and solid expectations for future months. Professional and high-tech services contacts noted a moderate increase in sales from the last survey, and firms expected activity to rise steadily in the months ahead. Most transportation, wholesale trade, professional, and high-tech businesses reported solid capital spending plans.

Real Estate and Construction. District real estate activity continued to increase at a modest pace in April and May, and expectations were positive for the coming months. Residential real estate sales increased moderately since the previous survey period, with low- and medium-priced homes outpacing sales of higher-priced homes. Home prices continued to make strong gains, and inventories fell at a modest pace. Expectations for sales and prices remained robust, and inventories were expected to decline further. Residential construction activity was unchanged as new housing starts and construction supply sales were flat. Builders and construction supply contacts expected a modest rise in residential construction activity in the coming months. Commercial real estate activity continued to increase modestly in April and May as vacancy rates decreased and absorption rates, completions, construction underway, sales and prices increased. The commercial real estate market was expected to strengthen at a modest pace over the coming months.

Banking. Bankers reported a slight increase in overall loan demand, stable loan quality, and declining deposit levels since the last survey. Respondents indicated a slight increase in demand for residential real estate loans, while demand for commercial real estate, commercial and industrial, consumer installment loans and agricultural loans remained relatively steady. Most bankers indicated loan quality was unchanged compared to a year ago, and the majority of contacts expected it to remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories. A larger number of respondents reported declining deposit levels compared to the last survey, principally in CDs.

Energy. The slowdown in the District's energy sector persisted and expectations remained cautious. The number of active oil drilling rigs declined moderately since the last survey period, and layoffs continued at regional oil and gas firms. Drilling activity was concentrated in more productive areas and in locations where drilling rights needed to be retained. Crude oil inventories at the key

Cushing, Oklahoma storage hub finally began to edge down in May as oil production slowed slightly in some key producing areas. Oil prices rebounded somewhat in April and May, but most contacts expected prices to remain volatile for the remainder of the year. Several respondents said that if a further rebound in oil prices occurs and holds, drilling could ramp back up later this year, as technology and other efficiency gains within the industry have led to somewhat lower breakeven prices. Natural gas prices increased somewhat in mid-May as demand for electrical generation grew.

Agriculture. Farm income declined since the last survey period due to persistently low crop prices. Corn, soybean and wheat prices remained significantly below year-ago levels, dampening farm income expectations despite improved growing conditions due to timely rains. Reduced working capital and high input costs boosted demand for new farm loans as well as renewals and extensions on already-existing loans. District bankers also reported a slight rise in carry-over debt relative to last year. Although sufficient funds were available to meet increased loan demand, loan repayment rates declined and were expected to fall further in the next several months. Deteriorating financial conditions in the crop sector put downward pressure on non-irrigated and irrigated cropland values, but ranchland values remained strong amid positive profit margins for cow-calf operations.

Wages and Prices. Prices in the majority of industries continued to grow slightly and wage growth was steady, with more firms planning to increase wages within the next year. Retail selling prices rose slightly, and restaurant menu prices continued to increase modestly. Manufacturers' raw material and finished goods prices declined at a slower pace than in the previous survey, and contacts expected prices to rise modestly in the coming months. Transportation input and output prices increased slightly, while construction materials prices declined modestly. Wages in the transportation and restaurant sectors rose modestly, while wages in retail were steady. Respondents continued to highlight shortages for truck drivers and auto technicians, as well as difficulty finding entry-level and sales staff. Contacts in most sectors said they expected labor costs to increase within the next twelve months.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a slightly slower pace over the past six weeks than in the previous report. Manufacturers mostly reported steady or weaker demand. Retail sales rose at a weaker-than-expected pace but auto sales were generally strong. Demand for nonfinancial services improved, and real estate activity generally remained solid. Loan demand rose at a slower pace than in the prior reporting period. The energy sector continued to decline, while rainfall notably improved District agricultural conditions. Price pressures remained subdued and employment held steady or increased. Outlooks were mostly positive, but weaker in a few sectors compared with the prior report.

Prices Most responding firms said prices held steady over the past six weeks. Manufacturers generally reported stable selling prices and input costs. Retailers and auto dealers noted steady prices, and staffing and professional and technical services firms said billing rates were unchanged since the prior report. Airlines reported lower fees and airfares. Leisure and hospitality contacts noted slower growth in costs, and a trucking company reported raising rates to cover increased labor costs.

The price of West Texas Intermediate crude oil and natural gas rose over the reporting period, but firms remained pessimistic in their outlook for 2015. Retail gasoline and on-highway diesel prices increased moderately as well.

Labor Market Employment in most industries held steady or increased, but there were reports of layoffs. Auto dealers, retailers and professional and technical service firms noted stable employment, except for one retail firm that reported hiring for new store locations. Airlines, staffing and transportation services firms reported slight increases in payrolls, and construction contacts continued to report a tight labor market. Some construction-related materials manufacturers reported layoffs due to weaker-than-expected demand. Two energy firms said that after cutting new hires, contractors and some employees, they were now using retirements to reduce staff.

Wages were mostly flat to up from six weeks ago. Contacts noted continued upward wage pressure for skilled workers in construction and high-tech manufacturing. Transportation manufacturers said healthcare costs were driving up compensation costs, and airlines, primary metals manufacturers and staffing and transportation services firms noted slight upward wage pressures. In contrast, a few firms reported reduced wage pressure and said it was easier to find workers due to layoffs in the oil fields.

Manufacturing Manufacturers said demand was flat to down over the reporting period, but outlooks remained mostly positive. Demand for construction-related materials was flat. Unusually wet weather, particularly in the Dallas-Fort Worth area, delayed construction activity, but some weakening in demand in Houston was reported as well. Outlooks of construction-related manufacturers were weaker than the prior report. Primary metals producers reported steady demand, although one contact noted weaker-than-expected sales. Fabricated metals producers saw a drop in orders over the past six weeks, which contacts attributed to wet weather, the strong dollar and low oil prices. Food producers said demand was flat during the reporting period but up slightly from a year ago, with the exception of one contact who noted a sharp drop in sales.

Demand for high-tech manufacturing softened over the past six weeks. Contacts noted continued slowing in sales of consumer electronics and communication equipment, and one contact said demand for personal computers remained weaker-than-expected. Contacts expressed concern about second-quarter outlooks, but were cautiously optimistic that overall growth would be positive this year. Demand for transportation manufacturing was unchanged over the past six weeks, but up from year-ago levels. Oilfield machinery sales remained weak and were significantly below year-earlier levels. One contact noted that oil and gas equipment manufacturers were actively seeking work from aerospace and other industries.

Gulf Coast refineries slightly increased operating rates, while chemical producers credited narrower margins and fewer sales to rising foreign production and the strong dollar. Outlooks remained positive, although the refining side of the business continued to be more profitable than chemicals.

Retail Sales Retail sales increased at a slower pace than the previous reporting period and below contacts' expectations. Retailers attributed slowing growth to the strong dollar, which has crimped tourist spending, and to West Coast port congestion, which delayed shipments of seasonal goods. But one respondent added that business in general was slower than expected. Three national retailers said Texas sales underperformed the national average, while one national retailer said Texas was in line with the nation. Outlooks were optimistic and contacts expect overall sales to increase this year.

Automobile demand continued to be strong, although one contact said that sales were below expectations because of a slight slowdown in the local economy and unusually wet weather. Inventories were in good shape, and one contact noted that auto manufacturers were more confident in general and less worried about oversupply than they have been since the recession. Outlooks were optimistic.

Nonfinancial Services Most nonfinancial services firms reported a slight pickup in demand, and outlooks were more optimistic than in the prior report. Demand for staffing services was the strongest in Dallas, although some contacts said demand in Houston had improved since the last report. Finance, accounting, auditing, food service and hospitality were noted as areas of strength. Demand for professional and technical services rose slightly. A software programing firm continued to report strong demand, particularly in Houston and Austin. Accounting firms said tax business continued to wind down, but year-over-year growth remained robust. Law firms saw a decline in litigation activity and in demand from energy firms but increased real estate and financial work.

Sea and courier cargo volumes rose over the reporting period, while air and rail cargo volumes declined and reports from trucking firms were mixed. Outlooks among transportation services firms were positive. Airlines said passenger demand was unchanged over the past six weeks, but below year-ago levels. The outlook for domestic travel remained positive, while the outlook for international travel, particularly to South America, was weak. Leisure and hospitality contacts said demand growth slowed during the reporting period. Activity in and around major cities continued to be strong, while demand in oil-producing areas of South Texas and the Permian Basin slowed notably.

Construction and Real Estate Home sales continued to grow, but reports on the pace of growth were mixed. Contacts in Austin and Dallas-Fort Worth reported continued strong demand. Contacts in Houston saw continued strength in home sales at lower price points, but reported softening in sales of mid-priced new homes. Lot deliveries and new home starts were delayed in part due to unusually wet weather across much of the state. Apartment demand remained strong.

Commercial real estate activity was generally strong, and outlooks were cautiously optimistic. Demand for office space was fairly solid, except for in Houston where leasing activity slowed and contacts noted an uptick in the level of sublease space. A few energy firms in Fort Worth are also seeking to sublease office space. Industrial and retail leasing and construction remained active, with industrial demand in Dallas-Fort Worth shifting from large to small and mid-sized tenants.

Financial Services Overall loan demand increased at a slower pace than in the previous report. Business lending generally slowed in the last month, largely driving this deceleration. Consumer lending, however, picked up for some contacts. Loans to auto dealers as well as consumer auto loans grew at a faster clip, and growth in mortgage lending ticked up. Commercial real estate loans continued to grow strongly, especially in Dallas and Austin. Default rates and charge-offs on loans were at all-time lows, indicative of strong loan quality. Deposit volumes fell at consumer lending-based banks, however, deposits at business lending-based banks continued to increase at a moderate pace. Net interest rate margins continued to squeeze bank earnings amidst tough competition and low interest rates. Outlooks deteriorated since the last report.

Energy The rig count and demand for oilfield services fell in the Eleventh District, with losses concentrated in the Permian Basin. Outlooks remain negative, with most firms expecting a 30 and 40 percent drop in capital expenditures this year and further cuts in 2016. One silver lining is that contacts said industry costs continued to decline, with firms reporting 20 to 30 percent reductions in drilling and completion costs since the beginning of 2015.

Agriculture Significant rainfall across much of the district greatly improved soil moisture and pasture conditions and helped replenish ponds and lakes. However, wet field conditions prevented some producers in South Texas from planting crops by the insurance deadline, and the heavy storms in North Texas damaged some of the wheat crop. Prospects for the 2015 crop year are nonetheless strong, with above-average yields expected. Grain prices generally moved down and cotton prices remained below profitable levels for producers. The cattle sector continued to benefit from strong demand and historically high prices.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the District expanded at a moderate pace during the reporting period of early April to late May. Overall price inflation firmed somewhat, while wage gains picked up a bit but remained moderate on balance. Retail sales and demand for consumer services grew moderately. Manufacturing activity was mixed but appeared to have been flat overall. Agricultural output expanded. Real estate activity strengthened, predominantly in the multifamily sector. Lending activity expanded, largely spurred by growth in real estate financing.

Prices and Wages

Overall price inflation firmed somewhat in the District during the reporting period. Prices for both health-care services and prescription drugs rose significantly. Leisure and hospitality contacts reported that prices in that sector have fully bounced back from their recession lows, and they expect continued growth throughout the remainder of this year. Low oil prices and the strong dollar reduced input and transportation costs for agricultural producers, putting downward pressure on prices in that sector, in general. However, prices increased noticeably for pork and poultry as a result of supply disruptions.

Wage pressures varied widely but increased somewhat on balance. Some contacts in the information technology sector reported rapid wage gains for workers with specialized skills, although other technology contacts reported more limited wage growth. In the construction sector, growing competition for skilled labor has created appreciable upward pressure on wages. Wage gains for lower skilled workers were mixed, with some contacts in the restaurant and hospitality industries reporting significant increases and others reporting limited upward pressure.

Retail Trade and Services

Retail sales grew at a moderate pace. Several contacts mentioned that low fuel prices provided a tailwind for consumer spending on other products. Automobile sales grew robustly relative to the same period last year, particularly for light trucks and SUVs. Consumers exhibited strong demand for entertainment and gaming products, and some contacts reported difficulties meeting this demand growth due to inadequate availability of skilled labor. Sales of food and beverages rose, but contacts noted a shift towards lower-priced products. Business investment spending in the retail sector held largely steady, with most investment activity aimed at enhancing productivity.

Demand for business and consumer services grew further on balance. Sales expanded smartly for restaurants and hotels, particularly in Southern California, although one contact noted that fast food sales slowed slightly throughout the District. Demand for technology services continued to grow moderately, with expansion primarily evident for cloud computing, security, and data analytics products. Activity in the health-care services industry was strong with a few contacts citing the Affordable Care Act as a source of ongoing growth. Demand for legal services generally remained weak, and contacts reported that many new graduates in that field are either underemployed or working in other sectors. Capital investment among service providers was flat on balance during the reporting period.

Manufacturing

Activity in the manufacturing sector was mixed but flat overall. Contacts in the biotech and pharmaceutical manufacturing industries reported strong growth and a record level of activity in mergers and acquisitions. Sales of semiconductors picked up a bit over the reporting period. Deliveries of commercial aircraft increased, but new orders fell significantly compared with the same period last year, suggesting slower demand growth ahead. Sources in the steel industry reported that global excess supply and a strong dollar continue to restrain demand for domestically produced steel. Sales of wood products in the District remained weak, reportedly due to weak demand from other parts of the country. Capacity utilization rates among various manufacturers were down from 2014 levels and remained well below long-term averages in some cases. However, capital spending for productivity enhancements grew further, with assorted contacts noting continued spending for new technology and equipment upgrades.

Agriculture and Resource-Related Industries

Agricultural output grew but conditions remained challenging in the resource extraction sector. Contacts reported excess supply and low prices for some agricultural products, notably potatoes and dairy, reflecting global competition and an appreciated dollar that has reduced exports. In contrast, demand for livestock, notably cattle, has been strong, keeping prices and profitability high. Growers of nuts and raisins also saw strong demand, propelled in part by an increase in exports that occurred despite the elevated value of the dollar. However, drought conditions continue to strain water resources, and contacts expressed concern that this could lead to a decline in fruit and nut production during the harvest season. Capital investment in the agricultural sector expanded at a modest pace, with most spending aimed at enhancing productivity. Resource extraction activity fell as low oil prices continued to depress drilling.

Real Estate and Construction

Real estate activity expanded on balance, led by strong growth concentrated in a handful of metropolitan areas. Construction of multifamily residential structures grew at a brisk pace, with some contacts reporting vacancy rates below those observed at the peak preceding the recession that began in 2007. Single-family home sales grew at moderate rate; one contact noted that high prices in the multifamily market have led young buyers to consider single-family units. Commercial real estate construction and leasing activity grew overall, with growth concentrated in a few areas with vibrant technology sectors. Shortages of skilled labor remained a constraint on construction activity in some fast-growth areas. Expanded construction activity spurred additional equipment purchases by construction companies, including some aimed at enhancing productivity.

Financial Institutions

Lending activity in the District rose moderately over the reporting period. Demand for commercial and industrial loans grew further, accompanied by significant increases in real estate lending in some areas. One contact reported increased hiring of loan originators, processors, and underwriters to meet growing demand for mortgages. Several sources reported that nonperforming loans declined and liquidity remained strong throughout the financial sector. However, regulatory constraints and low interest rates continued to exert downward pressure on net interest margins, and several contacts reported that some financial institutions relaxed their lending standards or began looking for new revenue streams. Capital spending was largely flat, with investments focused on equipment and software to enhance productivity or meet regulatory requirements.