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Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

August 2015

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicate economic activity continued expanding across most regions and sectors during the reporting period from July to mid-August. Six Districts cited moderate growth while New York, Philadelphia, Atlanta, Kansas City, and Dallas reported modest increases in activity. The Cleveland District noted only slight growth since the last report. In most cases, these recent results represented a continuation of the overall pace reported in the July Beige Book. Respondents in most sectors across Districts expected growth to continue at its recent pace, but the Kansas City report cited more mixed expectations.

District reports on manufacturing activity were mostly positive, although among these, the Cleveland, St. Louis, Minneapolis, and Dallas Districts painted a somewhat mixed picture across manufacturing sectors. Only the New York and Kansas City Districts cited declines in manufacturing.

Retail contacts in a majority of Districts reported that their sales and revenues continued to expand. By contrast, the Cleveland and Minneapolis Districts cited flat consumer activity since the last report, Atlanta was mixed, and Dallas reported decreased sales year-over-year. Most Districts reported increased auto sales. Among Districts with information on tourism, activity was strong in most reports.

Demand for nonfinancial services, including staffing, generally expanded over the reporting period. Districts mentioning the transportation sector mostly noted activity increases. Districts reporting on the banking sector mostly tallied increases in both business and consumer loan volumes. Credit quality was reported to be improving in most Districts, while credit standards were generally said to be unchanged.

Reports on residential and commercial real estate markets across the Districts were mostly positive. Existing home sales and residential leasing widely improved, with home prices moving up in most areas. Commercial real estate activity also rose in most Districts; commercial construction activity ranged from strong in the Cleveland and Minneapolis Districts to up only slightly in Chicago, while

* Prepared at the Federal Reserve Bank of Boston based on information collected on or before August 24, 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.

commercial leasing was reported to have increased across the board.

Agricultural conditions were mixed across Districts. Farm contacts indicated that anticipated yields were up for corn and soybeans, but conditions deteriorated in the St. Louis and Kansas City Districts; drought was an ongoing concern in the San Francisco District and was also a factor in parts of the Atlanta and Minneapolis Districts. Districts reporting on the energy sector indicated that conditions were stable to declining; coal production was down in the Richmond and St. Louis Districts, while oil-related activity declined in the Cleveland, Atlanta, and Dallas Districts.

Most Districts reported modest to moderate growth in labor demand, although Boston, Cleveland, and Dallas cited only slight increases in hiring. This tightening of labor markets was said to be pushing wages up slightly in selected industries or occupations, especially in the New York, Cleveland, St. Louis, and San Francisco Districts. Across all Districts, input and selling prices were reported to be stable or up only slightly.

Manufacturing

District reports on manufacturing were generally positive during the reporting period. Ten Districts reported stable or positive growth and only two, New York and Kansas City, registered declines. Several areas of strength were noted: Auto sales have generally been above expectations and Cleveland, Richmond, and Chicago all reported strong growth in auto-related manufacturing. Aerospace, particularly commercial aviation, continued as a plus for manufacturing production in the Chicago, Dallas and San Francisco Districts. Demand from the construction industry was strong, with the Boston, Philadelphia, Cleveland, Chicago, Minneapolis, and Dallas Districts reporting increases in demand for construction-related goods from lumber to construction machinery. Even in Districts where manufacturing activity expanded, several factors were mentioned as damping demand: The Cleveland, Chicago, and Minneapolis Districts reported weakness in the agricultural sector and declines in demand for agricultural machinery. Falling energy prices have led to a reduction in demand for machinery (reported by Cleveland and Minneapolis) and metals (Chicago and St. Louis). The Boston, Philadelphia, Cleveland, Richmond, and Dallas Districts cited the strong dollar as a weakening influence. Manufacturing contacts in Cleveland, Chicago, and St. Louis reported that cheap steel imports were depressing demand and leading to low capacity utilization in that industry; these cheap imports were attributed to the strong dollar and slowing economic growth in Asia. Reports from three Districts explicitly mentioned the Chinese slowdown as a factor, noting reduced demand for wood products (San Francisco), chemicals (Boston), and high-tech goods (Dallas).

District reports cited no major revisions to firms' capital spending plans, although contacts in the Kansas City District, for example, expected recent declines in activity to lead to a curtailment of capital expenditure. In general, District reports indicated the manufacturing outlook was positive; even contacts in Kansas City, one of the two Districts to report a decline in manufacturing activity, were modestly positive about the future.

Consumer Spending and Tourism

During this survey period, retail sales results varied across the Districts. Richmond reported that sales rose sharply, while Philadelphia, Chicago, Kansas City, and San Francisco indicated that consumer spending increased at a moderate pace. Most retail contacts in the St. Louis District said that sales were at or above 2014 levels, but many indicated that these results fell short of expectations. Boston and Atlanta reported mixed results—both Districts had some sources reporting that sales growth was improved or still strong, but other retailers reporting flat or slowing sales. The Minneapolis District noted that retail sales were largely flat. The New York District characterized retail sales as generally sluggish and below plan in July, but on or above plan in early August. Cleveland reported that sales were flat over the survey period and lower compared to a year ago. Retail contacts in the Dallas District reported decreased year-over-year sales, partly attributed to a strong dollar negatively affecting sales along the border area with Mexico. New York and Minneapolis reported that the strong dollar discouraged sales in Canadian border areas. Contacts in Philadelphia, Cleveland, Atlanta, St. Louis, and Kansas City were optimistic that retail sales will stay on pace or improve in the coming months, while Dallas contacts reported mixed levels of optimism amid expectations of low or no sales growth for the third quarter.

The Philadelphia, Atlanta, Chicago, and San Francisco Districts reported continuing strength in auto sales. Dallas said that sales remained steady over the survey period, and that demand was up compared to last summer. Most auto dealerships located in Upstate New York reported that after picking up in June, vehicle sales remained favorably steady. The Cleveland and Kansas City Districts reported modest year-over-year increases in auto sales, while Richmond reported flat or higher sales over the survey period. Expectations are generally optimistic that auto sales will improve or continue to be strong through the end of the year.

The Boston, Richmond, Atlanta, and Minneapolis Districts reported that travel and tourism activity continued to be strong, and contacts expected these positive trends to continue. Tourism activity in the New York District remained generally soft. Hotel occupancy rates and room rates were flat in New York City, but picked up in other parts of New York State. Restaurant sales were up in the Philadelphia, Cleveland, and Kansas City Districts.

Nonfinancial Services

Demand for nonfinancial services generally expanded at a modest to moderate rate since the last report. The Kansas City and Dallas Districts cited modest to moderate increases in demand for professional and technical services. Business activity in the software and information technology service sector increased in the Boston and San Francisco Districts. Reports from the Minneapolis and Dallas Districts indicated that accounting activity was strong in recent months. Several Districts, including St. Louis, Minneapolis, and San Francisco cited growth in the healthcare services sector. Both the St. Louis and Dallas Districts reported expansion in the food services industry. Dallas District law firms noted increased demand for legal services but activity at legal firms in the San Francisco District continued to be weak. Staffing services contacts from most Districts reported increases in overall labor demand and hiring activity and a tightening labor market, with Districts citing particular shortages of specialized software and IT workers, skilled trades workers, and truck drivers.

District reports on transportation activity were mixed but mostly positive overall. The Cleveland District reported a contraction in overall freight volume, with decreases in shipments of consumer goods, steel, and energy-related products, but increases in shipments of electronics and chemicals. The

Richmond and Minneapolis Districts noted robust port activity. The Atlanta District reported modest overall growth in transportation, with increases in automobile and machinery shipments. Trucking activity was stable in the Richmond District, but decreased in the Atlanta District. Contacts in the Dallas District reported only slight growth in the transportation services sector, with increases in courier cargo volumes, but decreases in rail cargo volumes. Overall, most nonfinancial services contacts across the Districts were reported to have a positive outlook, expecting business growth to continue through the rest of the year.

Real Estate and Construction

Residential real estate activity improved across the 12 Districts, with home sales and home prices increasing in every District, while construction activity was more mixed. Richmond and Kansas City indicated that sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Cleveland, Richmond, and San Francisco noted that demand was more robust for multifamily homes. Construction activity was reportedly increasing in most Districts, but was moderate or flat in the Boston, Philadelphia, Richmond, Minneapolis, and Dallas Districts. Contacts in the Cleveland District attributed increases in construction activity to expectations of a rise in interest rates, the improving labor market, and rising consumer confidence. However, Cleveland also cited supply-side constraints and difficulty obtaining construction financing. Similarly, Boston noted difficulty in obtaining new construction permits. San Francisco reported that construction activity slowed in some areas due to tighter borrowing conditions and shortages of skilled labor and available land. Contacts in many Districts attributed increases in home prices to robust demand and declining inventory. Inventories continued to decline or stay flat, with the exception of the Kansas City District, where they rose slightly. Boston, New York, and Richmond specifically commented on low inventory leading to bidding wars among buyers. Cleveland builders cited rising construction and land development costs as upward price drivers. New York and Dallas both indicated that prices have climbed for low- to medium-priced homes but price pressures are softer for higher-priced properties. Rental markets remained strong nationwide. Overall, the residential outlook was positive, with the majority of Districts expecting this increased activity to continue.

District reports on commercial real estate were positive on balance. Commercial leasing activity increased in the Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City Districts. Leasing activity was steady in the Philadelphia District, steady or increasing in the New York District, and mixed in the Boston District. Leasing demand was described as very strong in large cities, including Boston, New York, Philadelphia, Chicago, and Dallas, but Houston saw weak leasing demand. Significant office rent increases were reported for downtown Boston and New York City while slight increases were seen in Center City Philadelphia. Retail rents and industrial rents increased in portions of the Richmond District. Contacts in the Boston and Dallas Districts were optimistic or cautiously optimistic about commercial leasing activity moving forward; contacts in the Kansas City District expected modest improvement in leasing demand. Commercial construction activity increased in the Cleveland, Atlanta, St. Louis, and San Francisco Districts. Commercial construction was described as active in the Dallas District, strong-to-robust in the New York and Minneapolis Districts, and steady at a solid pace in the Philadelphia District's urban centers. In urban Boston, office construction activity increased from levels that were seen as below-normal in relation to fundamentals, and elsewhere in the Boston District commercial construction activity was mixed. The outlook for commercial construction was generally positive in the Boston, Cleveland, Atlanta, and San Francisco Districts, but risks to growth in construction activity include rising labor costs for skilled workers (noted by Boston and Cleveland contacts), and tighter underwriting standards for construction loans (noted by San Francisco).

Banking & Finance

Reports on banking activity were mostly positive during the reporting period. Overall loan demand increased in most reporting Districts, with the exception of mixed demand in Chicago and steady demand in Kansas City. Growth in loan activity in other Districts ranged from slight in Richmond to moderate in Philadelphia and St. Louis. Though contacts in Atlanta reported moderate growth, bankers in some parts of the District reported a slowdown in lending tied to the energy sector. Commercial and industrial loan demand improved in Philadelphia, Cleveland, and St. Louis, though it was categorized as steady in Kansas City and Dallas and mixed in Richmond. Commercial real estate lenders in Chicago continued to be concerned that valuations were too high, leading some to put limits on the size of loans they make for financing new purchases. On the consumer lending side, demand for credit was up in most Districts. Growth in demand for consumer loans was reported to be moderate in Dallas and stable in Cleveland. Several Districts, including Philadelphia, Atlanta, and Chicago, noted strong increases in demand for auto loans, though demand for such loans was flat in St. Louis. Demand for mortgages increased in several Districts, including Cleveland, Richmond, Atlanta, Chicago, and St. Louis. Although mortgage lending ticked up in Dallas, growth remained muted due to a limited supply of housing.

Credit conditions remained stable or improved across Districts. Delinquency rates declined across all loan categories in the New York, St. Louis, and San Francisco Districts. Credit standards were largely unchanged, with a few exceptions in the Richmond and St. Louis Districts who noted tightening standards. Contacts in Boston, Atlanta, and Chicago, reported competition among lenders for loans. Bankers in New York, Cleveland, and San Francisco reported narrow net interest margins.

Agriculture, oil, and other resource-based industries

Harvests were underway in many Districts and agricultural conditions mostly continued to improve during the reporting period; however, conditions deteriorated in the St. Louis and Kansas City Districts and were mixed in the Chicago District. Anticipated soybean yields were high, despite extensive damage to St. Louis District crops from record rainfall earlier this year and uneven conditions in the Chicago District. High corn yields nationally reduced the cost of feed, and positive cow-calf margins made up for low crop prices in some areas. Cattle prices increased in the Minneapolis and Dallas Districts, and decreased in Chicago. Egg production remained sluggish, as poultry houses continued to replace birds lost to the avian flu earlier this year. The Kansas City District reported financial strain in regions most dependent upon crop production as prices fell and credit conditions worsened. Similarly, capital spending and demand for agricultural equipment decreased in Minneapolis, while Dallas District farmers managed costs in the face of low expected revenues. The Atlanta and Minneapolis Districts experienced some isolated severe drought, and San Francisco expressed serious concerns about drought and inadequate water resources affecting future harvests.

The energy sector was flat or down in all Districts. Respondents in the Kansas City and Dallas

Districts revised expectations to deal with a long term low-price environment for oil; meanwhile drilling activity rose slightly in Minneapolis, Kansas City, and Dallas despite depressed demand. In Cleveland, drilling activity in the Marcellus and Utica Shales fell further, to 60 percent of the peak level in the fourth quarter last year. Hiring in oil and gas industries was modest in Cleveland, and firms were cutting jobs in the Atlanta and Dallas Districts. Energy-related capital expenditures were down in the Cleveland and Dallas Districts and mixed in Atlanta, where large firms were reassessing deep water projects but small firms expanded activities and refiners continued to invest in expansion. Coal production was down in the Richmond and St. Louis Districts, and mining activities decreased in the Minneapolis District. Natural gas production was up year-over-year in the Cleveland District, and flat in Richmond.

Employment, wages, and prices

Most Districts reported slight or modest growth in employment since the previous Beige Book. Boston reported little or no hiring except via its staffing sector, while Philadelphia, Cleveland, St. Louis, Minneapolis, and Dallas cited slight to modest increases in employment. Atlanta, Richmond and Chicago experienced moderate increases in employment, and San Francisco reported an increase in IT sector hiring. The New York labor market reportedly gained further momentum and saw strong growth in hiring. The Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco Districts reported labor shortages for certain skills or difficulty finding workers, especially for IT and other technical positions. Firms in the Atlanta District cited challenges retaining employees and filling vacancies.

Wages were relatively stable in most Districts, with slight to moderate increases since the last report. However, several Districts reported increasing wage pressures caused by labor market tightening. St. Louis reported almost three-fifths of responding firms had raised wages in the last three months. New York cited increased pressure on starting salaries, while Cleveland noted intensifying wage pressure in the construction, retail, and transportation sectors. San Francisco reported upward wage pressures for skilled workers in the IT, information security, and construction sectors. In the Kansas City District, wage growth slowed in many sectors despite selected labor shortages. Dallas noted flat wages, but also wage pressures for some specialty skills.

Both input and output prices remained stable in most Districts. The Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco Districts all reported that prices were mostly flat or had increased only slightly. In Richmond, retail and finished goods prices accelerated slightly, while in Kansas City prices were mixed, with retail input and output prices increasing at a modest pace while manufacturing and crop prices decreased moderately.

FIRST DISTRICT – BOSTON

Most business contacts in the First District continue to report moderate growth. A couple of sizable retailers, by contrast, cite slowdowns in sales growth in recent months although other retailers maintain year-over-year increases in activity. Ten of 12 responding manufacturers report ongoing demand increases, notwithstanding recent increases in the value of the dollar relative to foreign currencies. Most software and information technology services firms are also seeing revenue growth, while increases at staffing firms are even more robust. Residential and commercial real estate markets across the region continue to improve. Aside from staffing firms, no respondents cite wage increases and headcount changes are small. With minor exceptions, prices are said to be stable.

Retail and Tourism

First District retailers responding in this round report year-over-year comparable-store sales ranging from flat to mid-single digit increases. Two contacts say their sales results continue to improve or remain strong, but two others cite softer sales across all regions of the United States beginning in either mid-June or mid-July. Inventories are slightly higher as a result of these slower-than-expected sales, but not a cause for concern. One contact experiencing the slowdown characterizes the U.S. consumer as taking “a little pause,” while the other expects the slowdown to continue into the holiday season, and has downgraded his 2015 sales forecast to an increase of 2.5 percent to 3 percent, from 5 percent.

Business and leisure travel to the Boston area continues to be very robust. Over the first six months of 2015, the average hotel occupancy rate was 79.9 percent, up 1 percentage point from a year earlier, while the average hotel room rate was up 7.7 percent over the first six months of 2014. Now that the high summer travel season is well underway, the average room rate for June is up 11.2 percent over June 2014. January to June attendance at Boston area museums and attractions was down 4 percent year-over-year; much of this decline is attributed to poor weather and disrupted public transit in 2015:Q1; attendance in June alone was up 3.5 percent year-over-year, and anecdotal evidence suggests that the numbers will be strong for July and August. Boston area hotel revenues are forecasted to be up 8 percent year-over-year for 2015 and up a further 7 percent in 2016.

Manufacturing and Related Services

Of 12 contacted manufacturing firms, 10 report stronger demand. The two exceptions are a producer of fitness equipment and a dairy firm; the dairy firm cites a slowdown in sales of specialty products such as almond milk. Many of our contacts mention China as a performance factor, but so far the effects are modest. One contact, a producer of biotechnology equipment, says their sales in China exceeded expectations in the most recent period. A manufacturer of systems for new buildings reports a definite softening in construction activity in China which affects demand for its products. The strengthening dollar continues to present problems for some of our contacts. A producer of biotechnology equipment says that sales are going to be about $1 billion lower (on $14 billion in revenue) as a result of the stronger dollar. The firm reports, however, that the devaluation of the yuan was good news overall as their yuan costs exceed their yuan sales. Sources of demand growth in the U.S. are varied. A tool maker says that strong construction activity is leading to purchases of replacement tools for existing workers and new tools for workers new to construction trades.

Despite strong demand, most respondents report little or no net hiring. For example, a manufacturer of semiconductor equipment says sales were up 60 percent in the second quarter versus the same period last year but they still are not planning to increase headcount. A manufacturer of bulk chemicals said that they are seeing a much higher number of quits either to go to other firms or for retirement, after many years in which the quit rate was exceptionally low. A manufacturer of building equipment says that the China slowdown will eventually lead to "cost containment" in their U.S. operations, including broad hiring restrictions in the near future, even on their business lines with no exposure to China. Contacts report no significant wage pressure. Input and output prices are generally said to be stable, but there are some exceptions: A manufacturer of bulk chemicals says that slowing demand in China has reduced the price of inputs. A textile equipment firm says it raised prices 5 percent in April and has not noticed any reduction in demand.

Capital expenditures are up for most contacts, generally in line with earlier plans. The outlook is positive for all respondents except the dairy firm, which expects flat sales going forward.

Software and Information Technology Services

Reports from New England software and information technology services firms are varied. Most contacts cite mid to high-single-digit growth in both sequential and year-over-year revenues, with customer demand and sales volumes continuing to expand. By contrast, one firm reports decreases in both sequential and year-over-year revenues, due to weakened demand in China and the strong U.S. dollar. Selling prices, wages, and capital and technology spending have largely remained constant in recent months. Most firms have maintained or slightly increased headcount; one firm cut jobs within its weaker product lines. Most contacts are cautiously optimistic about the next few months, expecting continued revenue growth through the end of the year; only one firm reduced its year-end forecast, projecting a larger revenue drop than it had earlier.

Staffing Services

First District staffing contacts report robust growth in the New England region, with high-single-digit to low-double-digit year-over-year revenue growth. Labor demand has risen, particularly in the IT and healthcare sectors, which reportedly reflects increased confidence in the overall economy. Labor supply continues to be "very tight", with contacts noting shortages of IT workers, software developers, skilled trades workers, and network administrators. The rate of temporary-to-permanent job conversion remains strong. Firms have expanded their advertising presence on job boards and social media sites such as LinkedIn in order to better attract top candidates. Pay rates have grown by 3 percent to 20 percent, with the sharper increases reflecting a greater supply-demand gap. Most firms have maintained their profit margins by increasing bill rates in line with the rising pay rates. Looking forward, contacts are optimistic, expecting the positive growth trajectory to continue through the rest of the year. Some contacts express concerns about the Chinese economy, the strong dollar, and stock market fluctuations.

Commercial Real Estate

Contacts in the First District give mostly upbeat reports concerning the region's commercial real estate markets. Extending trends reported last time, office rents in Boston continue to climb, office vacancy rates continue to fall, and investors are pushing prices for Boston's commercial properties to near all-time highs. A few Boston contacts note that, over the past couple of years, the pace of delivery of new office space has been slow relative to historical norms under similar market conditions, contributing to the recent surge in rents. However, contacts also report that there has been a modest uptick in office construction activity in Boston's Seaport and Financial districts, involving a combination of pre-leased space and unleased space, and in some cases incorporating additional uses such as retail and residential space. Construction of hospitals and related facilities also continues to expand in the Boston area.

In Providence, office leasing activity experienced only a very modest summer slowdown, maintaining a decent pace that is expected to strengthen come September; a contact in that city reports that the number of large blocks of vacant office space is down considerably in recent months. The Portland area continues to see strong leasing activity across the office, retail, and industrial sectors, pushing vacancy rates into the single digits, and the city's hotels are enjoying very high occupancy rates. In Hartford, leasing activity is light amid flat economic activity but the city's investment sales market remains strong and has recently attracted the interest of foreign buyers. A regional lender to commercial real estate notes that his bank saw a recent spike in loan payoffs resulting from an increased number of property sales among its borrowers; at the same time, it struggles to secure new lending opportunities amid fierce competition from insurance company lenders and from the commercial mortgage backed securities market.

The shortage of skilled construction workers and accompanying wage pressure continues to weigh on the outlook for construction activity in Boston—according to one contact, within the next six months relevant labor costs in the metropolitan area could rise to levels that would significantly curtail construction activity relative to current plans. With the exception of a Hartford contact—whose outlook is modestly pessimistic—most commercial real estate contacts are optimistic concerning leasing fundamentals moving forward, but Boston contacts continue to be "nervous" about current high sales prices and low capitalization rates.

Residential Real Estate

Closed sales of both single-family homes and condominiums increased on a year-over-year basis in all six First District states in June. Contacts in the real estate industry say that sellers seem to be recovering from the harsh winter weather, and increased activity that began to show up in the last Beige Book continues. June represented the first year-over-year increase in closed sales of single-family homes for Massachusetts in 8 months. In Boston, where sales increased 10.2 percent, the volume numbers were near record highs. Median sales price increased from a year earlier on single-family homes in half the First District states and fell in Vermont, Connecticut, and Maine. Contacts in Massachusetts characterize the price appreciation as modest. Pending sales increased from July 2014 for nearly every state in the First District; the exception was condos in Maine. Inventory has decreased in every state but Connecticut. Massachusetts contacts say building and zoning laws continue to make new construction difficult. Contacts say low inventory has created a strong "sellers' market." Additionally, the available months of supply decreased in every state's single-family home market. The number of days spent on the market also decreased for both single-family homes and condos in most New England states.

Contacts express a generally optimistic outlook as the market continues to recover from the unseasonably slow winter. Some note that sellers may still be working on repairs before putting homes on the market and expect upward trends in sales and prices to continue into the fall. Many are weary of the inventory shortage and express concern that rising prices and potentially increasing interest rates will begin to present financing issues for buyers.

SECOND DISTRICT--NEW YORK

The Second District's economy has continued to grow at a modest pace since the last report. Businesses generally report that selling prices remain stable; while input price pressures have abated somewhat, there are signs of increased wage pressures. Labor markets have tightened further in recent weeks. Consumer spending has picked up somewhat in early August but remains generally soft; tourism remains sluggish. Manufacturing activity has weakened noticeably since the last report. Housing markets continued to improve, while commercial real estate markets were mixed but generally stronger. Both commercial and multi-family residential construction remain fairly robust. Finally, banks report stronger loan demand and lower delinquency rates, especially on consumer loans.

Consumer Spending

Retailers report that sales were generally sluggish and little changed from a year ago in July but picked up somewhat in early August. Two major general merchandise chains characterize sales as below plan in July but on or above plan in early August. One notes that sales in New York City have been sub-par, in part attributed to the strong dollar. Similarly, in upstate New York, the strong dollar has reportedly discouraged Canadian shoppers and weighed on sales, even as overall activity has picked up in recent weeks. Retail inventories are generally said to be at desired levels. Prices are reported to be generally steady, on balance.

Auto dealers across upstate New York indicate that new vehicle sales, after picking up in June, have remained generally steady at favorable levels in July and early August. Buffalo-area dealers indicate that sales softened a bit in early August, while Rochester-area dealers describe volume as steady in early August. Used vehicle sales were characterized as steady to increasing moderately. Wholesale and retail credit conditions continue to be described as in good shape.

Tourism activity has generally remained soft, though there have been scattered signs of a pickup. In New York City, Broadway theatres note that attendance and revenues rebounded somewhat in the latter part of July but have slowed a bit in early August. A major retailer also attributes some of its recent weakness in New York City to sluggish tourism. Hotel occupancy rates and room rates were little changed from a year earlier in Manhattan, and have softened slightly in the Albany area, but have picked up in other parts of upstate New York. Finally, consumer confidence in the region (NY, NJ, PA) retreated sharply in July, after climbing to a multi-year high in June.

Construction and Real Estate

The District's housing markets have generally been stronger since the last report, and new multi-family residential construction remains brisk. Northern New Jersey's housing market continues to recover gradually, with a large overhang of distressed properties continuing to weigh on the market; the multi-family segment, as well as areas near New York City, continue to outperform the market as a whole. Realtors in western New York report that the housing market has picked up steam over the past month or two; low inventories and strong demand have pushed up prices and made bidding wars common. Home sales and prices across New York State more broadly have also been increasingly robust. New York City's co-op and condo market has continued to strengthen gradually: activity is down from elevated 2014 levels, but steady, while prices continue to climb, except at the high end of the market.

Residential rental markets have been steady to somewhat stronger. Apartment rents have been running 3-5 percent ahead of a year earlier in Brooklyn, Queens and northern New Jersey, while they have been essentially flat in Manhattan and across upstate New York. Whereas vacancy rates on rental apartments have been steady or declining across most of the District, Manhattan's vacancy rate, though still quite low, has climbed steadily over the past year. One contact notes that there is a large supply of new (mainly luxury) rental apartments in the pipeline. Multi-family residential construction remains brisk across most of the District.

Commercial real estate markets across the District were mixed but stronger, on balance, in July and early August. Office availability rates declined modestly in Manhattan and northern New

Jersey, and were generally steady in Long Island and across upstate New York; office asking rents have risen at a fairly brisk pace in New York City and parts of Long Isand but have increased modestly across the rest of the District. Manhattan's retail leasing market has been steady since mid-year but has tightened somewhat in the outer boroughs, northern New Jersey and also across upstate New York. Commercial construction remains robust, though fewer new developments have been started in recent months.

Other Business Activity

The labor market has gained some further momentum since mid-year. Two major New York City employment agencies report that hiring activity has picked up further, while a major agency in upstate New York notes that the job market continues to improve moderately. Job candidates are getting job offers more quickly, and there is growing upward pressure on starting salaries. The financial sector is reported to be hiring more actively, but the recent increase has been broad-based. In particular, truck drivers, IT workers, creative workers, auditors, accountants, and human resource professionals are reported to be in high demand. Temp workers are also said to be in short supply, as many are being hired permanently.

Service-sector firms broadly report that business has continued to improve moderately in recent weeks, and they remain generally optimistic about the near-term outlook. In contrast, manufacturers report that business activity has weakened noticeably, though they too express fairly widespread optimism about the near-term outlook. Unlike business in other industries, manufacturers indicate they have scaled back hiring somewhat. Both manufacturers and service firms generally report that selling prices remain flat overall. Manufacturers also report that input prices remain flat, while service-sector firms report that input price pressures, though still fairly widespread, have abated somewhat.

Financial Developments

Small- to medium-sized banks in the District report increased demand across all loan categories, with the most widespread gains for commercial and residential mortgages. Bankers indicate no change in demand for refinancing. Bankers report that credit standards were unchanged across all loan categories. The spreads of loan rates over cost of funds are reported to have narrowed across all loan categories, except for consumer loans, where bankers reported no change. Finally, bankers note declining delinquency rates across all loan categories—particularly on consumer loans.

THIRD DISTRICT — PHILADELPHIA

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

Across sectors, nonauto retailers continued to report a moderate pace of sales growth; however, general services firms indicated a somewhat more modest pace this period compared to the previous reporting period. Staffing firms echoed reports of modest growth, as did lenders, commercial contractors, and leasing agents. Existing home sales and auto sales have picked up since the prior period. Auto dealers and tourism contacts reported modest growth compared with very high levels of activity last year. Manufacturing appears to have slowed somewhat to a slight pace of growth. Homebuilders reported little or no change in activity.

Manufacturing. On balance, Third District manufacturers reported that activity slowed – registering only slight growth during the latest Beige Book period. Contacts reported similar weakness in new orders and in shipments, although shipments picked up a little toward the end of the period. Gains in activity appeared to be stronger among the makers of lumber and wood products, fabricated metal products, and instruments; activity appeared weaker among the makers of paper products, chemicals, industrial machinery, and electronics. A few firms cited difficulties related to the strong dollar.

Despite the current lull, expectations of business activity growth during the next six months have improved since the last Beige Book report. Firms also indicated higher expectations for future capital expenditures; however, plans for future hiring changed little. About one-third of the firms anticipate hiring, while one-tenth expect to decrease employment.

Retail. Retail sales continued at a moderate pace. Citing both underlying economic momentum and exceedingly good weather, convenience store owners reported very strong results for July and early August; their shore locations did especially well. Various contacts reported that outlets at tourist destinations also have been packed with cars. Area malls reported moderate growth overall, while sales at computer stores, women’s apparel stores, restaurants, and personal services were stronger. Convenience store operators are bullish for the next 12 months, while mall operators have more modest expectations.

Auto dealers continued to report strong sales through the summer months. Despite record levels last year, New Jersey dealers reported 2 percent growth in volume over the year, and Pennsylvania dealers reported 4 percent growth. Early reports of August sales were comparable to June and July. Auto dealers are optimistic for continued growth through 2016.

Finance. Third District financial firms have continued to report modest overall increases in total loan volumes since the previous Beige Book. Commercial real estate activity picked up during the current period – joining commercial and industrial lending and auto loans as the segments with the strongest growth in volumes. Residential real estate lending was generally flat; refinancing loans appeared to fall in volume. Banking contacts in most parts of the District described a steadily growing economy with little sign of inflation. Contacts remained optimistic for continued growth over the next six months.

Real Estate and Construction. Third District homebuilders have reported little change in the relatively weak levels of new contract signings since the last Beige Book. One contact did note increasing land opportunities as other builders have pulled out. This contact has hired new staff positions to take advantage of the potential growing market share. Brokers in the major Third District housing markets reported strong double-digit growth compared with last year for sales of existing homes. Last year, sales were relatively weak in many markets; however, current sales levels in the Greater Philadelphia area have rebounded and are now higher than they were two years ago. Home prices continued to rise slowly, and the inventory of homes has continued to fall. Philadelphia's Center City remained one of the District's "hot spots," with greater demand, more sales, and stronger price gains.

Nonresidential real estate contacts reported little change to the modest pace of construction and leasing activity seen earlier. The Third District's larger downtown districts remain the focus of significant new construction for office and mixed-use developments. Center City Philadelphia continues to attract new investment in commercial retail space. While Philadelphia's Class A office space continued to command strong premiums, rents for most categories increased only slightly. Contacts remained optimistic for ongoing growth of both new construction and leasing activity throughout the district into 2016.

Services. Third District service-sector firms reported that overall activity slowed somewhat to a modest pace of growth, although it remains unclear how much of the lull is seasonal. Expectations for future growth remained broadly held and undiminished, with about four-fifths of the firms expecting growth. On balance, firms continued to add full-time positions, while firms reporting fewer part-time, temporary, and contract positions slightly outnumbered the firms reporting more. Staffing firms reported some weakness in temporary positions but were positive overall citing growing job orders for permanent positions driven by economic growth and company expansions, as well as replacement.

As with some manufacturers, defense-related firms continued to report limited opportunities for growth due to federal spending constraints. Tourism contacts at mountain and shore destinations continued to report record levels of summer activity throughout the Third District. While the number of visitors represents a modest improvement over a strong 2014, contacts report that tourists are spending more at area restaurants and shops. Despite these gains, the total revenues at Atlantic City casinos continued to decline.

Prices and Wages. The overall price level has continued to increase slightly since the previous Beige Book period. Over 60 percent of the nonmanufacturing contacts reported little or no change in the prices they pay for inputs and the prices received for their goods and services; over three-fourths of the manufacturing contacts reported the same. On balance, a somewhat higher percentage of firms reported increases in the prices they paid as opposed to decreases. This also held true for prices received by nonmanufacturers; however, the reverse held true among manufacturing firms. Retail contacts reported little price pressure.

Generally, contacts continued to report little change in wage pressures; staffing firms described steady, upward movement in wages. One contact described wages as “inching up.” However, contacts from several different sectors independently reported facing higher costs to obtain commercial construction contracts, suggesting that wages have tightened for skilled laborers. Other contacts report some difficulties filling highly technical positions.

FOURTH DISTRICT – CLEVELAND

On balance, the Fourth District's economy expanded at a slight pace since our last report. Factory output was stable. The housing market improved, with higher unit sales and prices. Nonresidential building contractors characterized backlogs as strong or strengthening. Retailers reported that their revenues were flat over the period and year over year. New-car sales rose slightly. Exploration in the Marcellus and Utica Shales declined, whereas mid-stream infrastructure projects moved forward. Freight volume contracted slightly. The demand for business and consumer credit continued to move slowly higher.

Payrolls expanded slightly. Newly created positions typically require a higher-level skill set than in the past. Staffing firms reported a pickup in the number of job openings in healthcare and manufacturing; however, the number of placements did not keep pace. Wage pressures were intensifying in the construction, retail, and transportation sectors. Overall, input and finished-goods prices were steady.

Manufacturing. Factory contacts reported that demand was stable over the period. Key factors tempering output include a strong dollar, the downturn in the energy sector, and weakening demand for agricultural equipment. That said, suppliers to the motor vehicle, construction, construction equipment, and defense industries continue to see strong or strengthening demand, with improved top-line growth compared to that of a year ago. On balance, our contacts are cautiously optimistic in their outlook for the remainder of 2015. The steel industry continued to experience stiff competition from imports, competition driven in part by the strong dollar. As a result, steel shipments fell more than expected over the period. Year-to-date auto production at District assembly plants through June fell 2 percent below the prior year's level. This decline is primarily due to retooling at a medium-duty truck assembly plant.

On balance, capital budgets were stable over the period. Spending was largely allocated for new equipment, and to a lesser extent, maintenance projects. Some manufacturers increased capital budgets to purchase equipment that could replace labor. Steel makers and suppliers to the oil and gas industry cut budgets to control costs and preserve cash. Automakers and parts suppliers reported using overtime and adding shifts to meet demand increases instead of expanding plant capacity. Raw material and finished-goods prices were generally flat. Downward pressure on prices for steel and finished goods with a high steel content continued. Reports indicated a slight expansion in payrolls. Newly created jobs were in technology-related fields.

Real Estate and Construction. Year-to-date sales through June of new and existing single-family homes rose about 8 percent compared to those of the same time period in 2014. The average sales price increased by almost 6 percent. Single-family construction starts picked up over the period. Builders attributed the strong housing market to a potential rise in interest rates, an improving labor market, and rising consumer confidence. Going forward, our contacts expect some softening related to seasonal factors, higher borrowing costs, and spillover from the slowdown in the energy sector. New-home contracts remain concentrated in the move-up price point categories. Builders cited a moderate increase in new-home prices since the beginning of the year, an increase that they attributed to rising construction and land development costs. Several builders commented that the market for spec homes exists, but is limited by supply side factors, including capacity constraints and difficulty obtaining construction financing.

Nonresidential contractors reported continued robust activity over the period, with revenues rising above year-ago levels. Backlogs were described as strong or strengthening, with work booked one to two years out. Demand has been strong across multiple segments: commercial (including office), education, government contracts (including roads), and multifamily housing. Regarding multifamily, there is growing demand for affordable housing as increased rents have priced out low- and moderate-income individuals from select multifamily units. There is concern about the sustainability of the current pace of growth in the construction industry during the next three years. Some builders believe the current cycle could peak by 2017.

Capital spending by general contractors was mainly for new equipment and technology. Materials prices were stable during the past six weeks. For the remainder of 2015, builders anticipate that material prices will increase primarily for concrete and drywall. A majority of our contacts reported a modest expansion in payrolls over the period. That said, the construction industry remains challenged by a labor shortage, including laborers, skilled craftsmen, and construction professionals. The end result is upward pressure on construction costs, including labor, and a reduction in the overall number of bids.

Consumer Spending. General merchandise retailers reported that their revenues were flat over the period. Store traffic continued to decline, while on-line shopping expanded. Active wear and products related to outdoor activities were in highest demand. Restaurateurs experienced an increase in customer visits, particularly in the fast-casual and high-end segments. Retailers stated that revenues were flat or lower than they were a year ago. Revenues during the next three months are expected to increase in the low single digits compared to the prior three months, partly because of back-to-school sales. Vendor and shelf prices were stable, other than increases for eggs and some meat products. Hiring is limited to new-store openings. The retail sector is confronting stiffer labor competition. Higher turnover of managerial staff and hourly workers combined with a smaller pool of qualified workers is driving up wages. These situations are in addition to large minimum wage jumps in select metro areas.

Year-to-date sales of new motor vehicles through July were about 1 percent higher compared to those of a year ago. A strong consumer preference for SUVs and light trucks continued. One auto group owner remarked that while overall pricing is stable, consumers seem willing to invest in higher-priced trim levels and options, especially in SUVs. New inventory is close to matching demand, except for the most popular models, where inventory is light. Looking forward, dealers expect unit volumes will be on par with that of 2014. Year-to-date pre-owned vehicle sales are moderately higher compared to those of last year. Capital spending was primarily allocated for expanding dealer footprints. Payrolls were stable over the period, but dealers indicated that labor markets are tight, putting upward pressure on wages.

Banking. Bankers reported a modest increase in demand for business credit, particularly for CRE loans and, to a lesser extent, M&A financing. Consumer credit was stable over the period, with activity concentrated in auto lending and home equity products. Interest rates for business and consumer credit held steady. Almost all of our contacts noted continued strength in their residential mortgage business, which was biased toward new-home purchases. Little change was reported in delinquencies (already at low levels) and loan-application standards. Core deposit balances remain strong. Margins were characterized as very thin, and banks are looking for creative ways to generate additional revenues. Capital investment by banks was primarily for technology enhancements such as cyber-security. Payrolls increased, on net. Most hires continue to be in higher-skilled positions such as IT, risk management, and regulatory compliance.

Energy. The number of drilling rigs operating in the Marcellus and Utica Shales trended lower over the period, and is currently about 40 percent below its peak level in the fourth quarter of last year. Natural gas production through the first half of 2015 was at a higher rate compared to that of the same period a year ago. Wellhead prices for oil dipped over the period, while natural gas prices have stabilized at a low level. We heard several reports about capital budgets being adjusted downward as companies trim back their exploration and production plans. In contrast, already contracted midstream infrastructure projects are moving forward. Because of weak exploration activity, hiring within the oil and gas industry is modest and tightly controlled. Industry wage pressures have dissipated with the decline in natural gas prices.

Freight Transportation. Reports indicated that freight volume contracted slightly over the period. Declines were prevalent in consumer goods, steel, and energy-related shipments. Growth was seen in intermodal transportation, electronics, and chemicals. Any lingering effects of the West Coast port strikes have dissipated. The outlook for the next few months is for volume to grow moderately along seasonal trends. Prices for fuel and maintenance items were fairly stable over the period. A few reports indicated that capital investment plans have been cut back due to uncertainty about future demand. Spending is mainly for replacing older equipment and maintenance projects. The labor shortage (drivers and service technicians) continued to put upward pressure on wages. Hiring was more for replacement than to add capacity.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy grew moderately since the previous Beige Book. In manufacturing, shipments and the volume of new orders rose. Retailers reported stronger sales, and non-retail services firms saw faster growth in revenues. Demand for residential mortgage loans rose, while other consumer loan demand increased slightly. Competition among commercial lenders intensified. Residential real estate activity grew at a modest pace and commercial real estate activity increased moderately. Agribusiness strengthened slightly. In District energy markets, natural gas production and prices were unchanged since our last report, while coal production and prices declined further. Labor demand continued to rise, with increasing conversions of temporary positions to permanent employment. According to our most recent surveys, employment and wages rose at a quicker pace in the manufacturing and service sectors since the prior Beige Book. Prices of raw materials rose at a slower pace, while finished goods prices accelerated slightly. The pace of retail and non-retail price increases moved up modestly.

Manufacturing. Manufacturing activity increased moderately since our last report. Producers reported modest growth in shipments and in the volume of new orders, with pockets of strong growth in some product lines. A textile manufacturer reported that automotive-related production was very strong. Additionally, a dental products manufacturer commented that sales were strong and the volume of work remained steady, and a boat builder said sales had increased, specifically in the higher end line. A cement board producer stated that shipments had risen and he expected continued strength through the end of the year. In contrast, a variety of other manufacturers reported unchanged, but stable business conditions. Finally, a pipe producer said demand had declined in recent weeks. According to our most recent survey, prices of raw materials rose at a slower pace than during the previous report period, while prices of finished goods accelerated slightly.

Ports. Traffic through District ports remained robust since the previous Beige Book. Port officials reported that growth in imports exceeded export growth. Exporters of manufacturing components said that the strong dollar has made business difficult. Additionally, exports of farm and construction machinery slowed. Agricultural and automobile related exports strengthened at one port, but weakened at others. Grocery exports were generally strong. On the import side, automobile volumes rose above year-ago levels and imports of containerized products continued to break records, including apparel, housewares, furniture, and flooring, as well as machinery and auto parts. Port officials said that large amounts of cargo continued to move between the ports and the Midwest, particularly by truck. Efforts to boost productivity have stabilized port congestion despite rising volumes.

Retail. Retail sales rose sharply since our last report. Sales of building supplies increased, and auto dealers reported flat to higher sales. A car dealer in the Capital region said slower deliveries of new cars had left his inventory a little low, while customer traffic was bolstered by the opening of several new businesses nearby. In addition, a retailer of specialty auto parts reported stronger sales and a gas station convenience store owner attributed his growth to increased auto travel this summer. According to our latest survey, retail prices rose at a slightly faster pace since the prior reporting period.

Services. Revenues strengthened at non-retail services firms in recent weeks. Financial services firms, advertising agencies, and travel consultants reported faster growth. In addition, regional airports reported greater growth in revenues and enplanements. Trucking firms in the District reported stable growth, and one executive said that shipments strengthened in the second half of August. An electronic logging mandate that is set to go into effect in the fall is expected to adversely affect smaller trucking firms, and bring additional business to the larger firms that already are in compliance. Shippers have notified trucking executives that demand is expected to be high through the end of the calendar year. The pace of price increases at services firms edged up since the previous Beige Book.

Tourism continued its solid growth since the last report. A tourism executive on the outer banks of North Carolina said this has been an excellent year with bookings above year-ago levels. Seafood festivals, music events, and windsurfing regattas are scheduled to boost demand after peak summer months. A North Carolina hotelier said that transient bookings at area hotels had declined slightly year-over-year, but were offset by more military-related stays. Hotel rates and rental rates changed little in recent weeks.

Finance. Since our previous Beige Book, loan demand increased slightly in the Fifth District. Residential mortgage demand picked up in central Virginia, particularly for lower-priced homes. A North Carolina banker said loan growth increased only marginally, but more activity stemmed from organic growth rather than taking away business from competitors. Reports on commercial loan demand were mixed. A mortgage lender in Virginia noted an increase in commercial development lending. A contact from Washington, D.C. reported continued strength in multi-family construction but fewer projects that rely on federal government spending. A West Virginia banker said that commercial real estate loan demand was stable but tepid, and added that a lack of comps was depressing appraisal values. Competition intensified, according to several contacts throughout the District. A Maryland lender said that competition for commercial lending now included private equity and alternative financing companies, while a lender in Virginia said competition had increased for deposits from credit unions. Credit standards were largely unchanged, although some tightening was reported in West Virginia. Credit quality improved, according to a South Carolina banker; in contrast, a lender in West Virginia noted a slight decline due to a downturn in the state's energy sector. The only interest rate change reported was a marginal increase for commercial and auto loans in West Virginia.

Real Estate. District housing market activity grew at a modest pace since the previous report. Average sale prices were stable to slightly higher, and days on the market varied across markets. Home inventories remained low on balance. A Realtor in Washington, D.C. reported increased inventory in higher-end homes. A broker in Richmond, Virginia reported strong demand in the $400,000 to $600,000 range, while a contact in Greensboro, North Carolina said that the market was strongest for lower-priced homes. According to one report, single family homes in Spartanburg, South Carolina were selling rapidly. Additionally, a Realtor in Woodsboro, Maryland said that residential sales increased, with a seller's market in the lower price ranges and some instances of multiple bids. However, a broker in northern Virginia reported less urgency from buyers, and some price reductions. A Charleston, West Virginia source also noted a slowdown in the residential market in recent weeks. Reports on residential single family construction were mixed. Multifamily leasing and construction activity remained strong.

Commercial real estate activity increased moderately since the previous report. Vacancy rates varied by submarket and region, with scattered accounts of higher rental rates. A contact in North Carolina said landlord build-out contributions had increased, and noted more demand from retail discounters. A Realtor in Virginia Beach reported a slight uptick in the retail market, noting that class B locations were becoming more attractive due to an increase in Class A rental rates. A broker in Virginia Beach said that market activity had increased across the spectrum, and that office space below 5,000 square feet remained active, while demand for larger spaces was somewhat rare. Tight inventory for industrial space was said to be pushing up rental rates in the Carolinas, while a Baltimore broker reported more industrial warehouse vacancies. The grocery segment remained very active throughout the District. A contact in Charlotte, North Carolina described increased commercial activity, with more sales and new construction of office buildings. New retail construction increased in Virginia, while office construction decreased.

Agriculture and Natural Resources. Modestly stronger conditions in agriculture were reported in recent weeks. Corn harvesting was underway, although a grower in North Carolina said that some crop yields were low due to dry weather conditions earlier in the season. Agribusiness contacts reported that sod sales increased since the last report. Commodity prices remained low, while corn prices declined further. Input prices remained unchanged.

Natural gas production was unchanged overall since our previous report, while coal production declined slightly. Natural gas prices remained unchanged since last report, and coal prices declined slightly.

Labor. The demand for labor rose moderately since our previous report. A staffing agent in Virginia noted that almost all skill sets are in demand at this time. Demand for employees increased throughout the District in retail, distribution centers, customer service, IT, accounting, and financial services. Shortages were cited for specialized IT workers, skilled trade subcontractors, and blue collar workers. Demand for manufacturing workers also rose but at a slower pace since our last report. Temporary workers were being converted to permanent at a faster rate in recent weeks. Maryland and Virginia employers reported difficulty recruiting workers who could pass drug tests and background checks. According to our most recent surveys, employment rose moderately for services other than retail, and increased modestly for manufacturing firms. Wage pressures were generally stable or increasing but varied by location and occupation. Some health care providers were using sign-on bonuses to attract talent. Wages rose robustly in the service sector. Manufacturing wages increased moderately and the average workweek lengthened.

SIXTH DISTRICT – ATLANTA

According to reports from businesses across the Sixth District, economic activity modestly improved from July through mid-August. Most firms continue to be optimistic and expect higher growth over the remainder of the year.

Reports from retailers were mixed with some noting improved sales growth compared with a year ago, while others experienced little to no growth. Automobile dealers continued to report solid activity. The hospitality sector remained upbeat. On balance, residential brokers and builders cited that sales of existing and new homes were ahead of last year's levels and home prices continued to rise modestly. Commercial real estate firms reported that demand continued to improve and construction increased from a year ago. Manufacturers noted that new orders and production were up since the previous report. Bankers indicated that lending activity continued to modestly improve. Businesses reported continued tightness in the labor market. Firms cited modest wage growth and subdued non-labor input cost pressures.

Consumer Spending and Tourism. District retailers reported mixed activity since the last report. Some contacts reported healthier sales growth compared with a year ago while others reported slow or no growth year-over-year. Overall, merchants expect improved activity as the next major holiday falls on a weekend. Auto sales continued to experience robust sales activity.

Reports on tourism and business travel remained upbeat from July through mid-August. Hospitality contacts in Georgia, Florida, and Louisiana reported strong occupancy numbers as attendance at major conventions and attractions was up from a year ago. Year-to-date Mississippi casino gaming revenues increased compared with the same period last year. Industry contacts expect business and leisure travel to exceed forecasts for the remainder of 2015.

Real Estate and Construction. District contacts indicated that real estate activity continued to improve since the last report. Three-fourths of residential brokers noted that home sales met or exceeded their plans. The majority of contacts reported that home sales increased from the year-earlier level, and that inventory levels remained the same or fell. Buyer traffic was also reported to be up relative to one year ago. Most brokers continued to report modest home price appreciation. Brokers’ outlook for home sales activity remained positive, with most expecting sales to hold steady or increase slightly over the next three months.

The majority of homebuilders continued to indicate that construction activity was up from year-earlier levels. Reports on new home sales and buyer traffic described activity as being flat to up slightly from one year ago. Most builders indicated that their inventory of unsold homes was flat to slightly up compared with the prior year's level. Builders also reported modest 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 hold steady or increase slightly.

Commercial real estate brokers from across the District indicated that demand continued to improve for all property types, but they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that nonresidential construction activity was up from their year-earlier levels. Reports on apartment construction continued to suggest that activity remained robust. Most contacts reported a backlog that was greater than the previous year, with activity booked six months to three years out. The outlook among District commercial real estate contacts remained positive, with most expecting the pace of construction activity to increase slightly.

Manufacturing and Transportation. District manufacturers reported that business activity was solid from July through mid-August. Contacts indicated that new orders and production had rebounded from the previous report and were now on par with the levels observed earlier in the year. Firms noted that payrolls continued to increase at a steady rate, finished inventory levels had fallen somewhat, and delivery times for inputs reduced. Reversing the previous report's moderate uptick, input prices were reported to have fallen. Optimism for future production levels strengthened since the previous report, with half of contacts expecting an increase over the next three to six months.

Transportation activity in the District was roughly unchanged since the last report. Port contacts indicated continued growth in container traffic, bulk and break bulk cargo, and autos and machinery. Year-to-date total rail traffic was flat to slightly down, but intermodal volumes continued to grow; coal and iron and steel scrap shipments declined substantially compared with year-earlier levels. Trucking contacts cited slight decreases in overall tonnage over the reporting period; however, tonnage was up notably year-over-year.

Banking and Finance. Banking contacts continued to report that credit was available for qualified borrowers. Competition for loans remained elevated and some contacts noted loan growth and increased loan volume for home purchases versus refinancing. Banking contacts reported that even though credit was readily available at a low cost, many firms used cash for capital expenditures or funded investments internally. Credit union contacts indicated auto lending remained strong. Bankers in Louisiana continued to report a slowdown in lending tied to the energy sector. Compliance costs continued to burden community banks.

Employment and Prices. Employment continued to increase in most areas of the District, with reports of greater competitiveness and tightening in the labor market. Firms continued to report challenges retaining employees. Firms that were experiencing difficulties filling vacancies, noted ramping up internal training programs to better position themselves to take on inexperienced workers.

Input cost pressures remained muted across most sectors. The majority of contacts continued to cite relatively stable annual wage growth of 2 to 3 percent. However, labor costs continued to accelerate for some specialized positions that are in high demand. Referral and signing bonuses and other benefits enhancements remained popular tools used to attract and retain talent. Softness in prices for imported goods and many commodities continued to bolster margins as firms indicated keeping final prices steady. According to the Atlanta Fed's survey of business contacts, unit costs were up 1.5 percent in July relative to a year ago, however, respondents expected that growth in unit costs would rise to 2.0 percent over the next 12 months.

Natural Resources and Agriculture. Weak global demand and an oversupply of oil resulted in continued downward pressure on oil prices. Contacts indicated that low oil prices are driving large producers to reassess the timing and scale of deepwater projects which continued to result in labor cutbacks, while small production companies have taken advantage of the lower cost of deepwater drilling prices and expanded their drilling activity. Firms engaged in refining continued investment to expand capacity to provide flexibility in order to refine lighter crude from shale. Utilities experienced increased usage in residential, commercial, and industrial power.

Areas affected by drought conditions expanded in the District since the last report. Most drought-affected areas were categorized as abnormally dry to moderate, but parts of southeastern Florida experienced severe to extreme drought conditions. All District states forecasted lower cotton production than last year. Conversely, District soybean and peanut production forecasts showed a net production increase. The USDA reported year-over-year farm real estate value increasing everywhere in the District except Georgia which reported a slight decline.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District remained moderate in July and early August, and most contacts expect activity to rise at a similar pace over the next 6 to 12 months. Growth remained moderate for consumer spending, business spending, and manufacturing production, while construction and real estate activity continued to increase at a modest pace. Credit conditions were little changed. Cost pressures also were about the same as during the last reporting period, with prices for most raw materials remaining low and limited wage growth. Downstream, there was little change in retail prices. The condition of the corn and soybean crops was uneven across the District, with record yields possible in some areas and low yields likely in others.

Consumer spending. Growth in consumer spending continued at a moderate pace over the reporting period. Spending on discretionary items such as sporting goods, entertainment, general merchandise, and apparel generally increased at a faster rate than spending on necessities such as food and beverages. New and used vehicle sales continued to be strong. Vehicle transaction prices moved up further, increasing dealer profitability. Relatively low gas prices continued to cause a shift in consumer preferences toward light trucks.

Business spending. Growth in business spending remained moderate in July and early August. Most retailers and manufacturers reported comfortable inventory levels, though stocks remained slightly elevated at steel service centers because of the large volumes of imports over the past year. Some retail contacts said they planned to carry lower-than-normal inventories of winter-related items because of forecasts that a strong El Niño effect will raise temperatures this winter. The pace of capital spending remained moderate. While a declining number of contacts reported spending for expansion, there were increased reports of mergers and acquisitions. Hiring and hiring plans also grew at a moderate pace. Labor demand was again strongest for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. A staffing firm reported declining revenues, which they attributed primarily to moves by their clients toward hiring more permanent workers and toward more outsourcing.

Construction and real estate. Construction and real estate activity increased modestly over the reporting period. Residential construction ticked up, with building primarily concentrated in urban single-family markets. Residential rents, home prices, and home sales all increased slightly, while home affordability was little changed. Demand for nonresidential construction edged up. Commercial real estate activity again increased moderately, with growth spread broadly across the retail, industrial, and office segments. Commercial rents were up slightly, while commercial vacancy rates moved down and availability of sublease space was little changed. Contacts reported particularly strong demand in urban areas, but noted that both the demand for and quality of buildings in suburban markets have shown improvements as well.

Manufacturing. Manufacturing production continued to grow at a moderate pace in July and early August. Growth in the auto and aerospace industries remained strong, with greater-than-expected gains in auto sales. Trucking firms' fleet expansions led to a moderate increase in heavy truck production. Growth in most other manufacturing industries was more limited. Capacity utilization in the steel industry remained low, as demand grew only slightly, and inventories at steel service centers remained elevated. Steel imports were still at high levels, though contacts expect that recently filed trade cases will slow the pace of imports going forward. On balance, specialty metals manufacturers reported mild growth, with those primarily serving the auto and aerospace industries seeing strong growth while those primarily serving the oil and gas industry experienced declining orders. Demand for heavy machinery was flat, as steady growth in construction machinery was offset by declines in agricultural machinery. Manufacturers of construction supplies again reported slow but steady growth.

Banking/finance. Credit conditions were little changed over the reporting period. Financial market volatility increased, while credit spreads and leverage remained largely unchanged. New loan demand from small businesses weakened, though credit line utilization ticked up. Middle-market loan demand increased, driven primarily by recapitalization. Commercial real estate lenders continue to be concerned that valuations are too high, leading some to put limits on the size of loans they will make for financing new purchases. Consumer credit demand increased slightly, with an uptick in applications from lower quality applicants. Demand for mortgage funds increased with rising home prices, though there was downward pressure on mortgage rates as competition among lenders picked up. Auto loan demand remained strong, and one contact reported pressure to extend loan terms in response to already low spreads and highly competitive pricing.

Prices/costs. Cost pressures were again subdued in July and early August. Energy prices remained low, along with prices of steel and other primary metals. Most retail prices changed little, with firms that did report price increases most likely citing increased demand for their products as opposed to rising costs. Wage pressures remained mild and were generally stronger for higher-skilled occupations. However, many contacts that paid workers near the minimum wage reported increasing wage pressures and greater difficulty finding workers. A staffing firm reported accelerating wages, though much of the ramp-up appeared to be because of a shift in the occupation mix toward higher-skilled workers. Non-wage costs declined slightly as fewer contacts reported pressures from benefits.

Agriculture. The condition of the corn and soybean crops was uneven across the District, with record yields possible in some areas and low yields likely in others. Nationally, yield expectations moved higher, contributing to lower corn and soybean prices. Corn and soybean producers who locked in prices during the rally earlier in the summer should be able to break even on a portion of their output, but most others likely would not cover input costs if they end up selling their harvest at current prices. Wheat prices were also down. Hog prices were flat, dairy prices moved up, and cattle prices moved down. Poultry houses started to receive birds to replace those culled because of the influenza outbreak earlier this year, but the recovery has been slow, so contacts expect egg and turkey production to remain lower than normal for the rest of the year. Egg prices increased again.

EIGHTH DISTRICT — ST. LOUIS

Summary

Economic activity in the Eighth District has continued to increase at a moderate pace since the previous Beige Book. A survey of District businesses indicated that wage growth was generally moderate and employment growth was modest. Retailers and auto dealers continued to report higher sales; although some retailers did report that current quarter sales have been lower than expected. Reports from manufacturers were mixed. Banks reported increased lending activity over the past three months. Real estate conditions continued to improve at a steady pace, as home sales were up and construction activity remained robust. On the other hand, agricultural and natural resources conditions remain weak as crop conditions continued to deteriorate and coal production continued to decline.

Employment, Wages, and Prices

A survey of about 150 District businesses indicated that wage growth in the District was moderate, while employment and prices grew modestly. Fifty-nine percent of contacts indicated that wages during the past three months were higher, and thirty-eight percent indicated wages were unchanged relative to the same period last year. Thirty-seven percent of contacts reported that employment during the past three months was either higher or somewhat higher as it was during the same period last year, fifty-six percent reported their employment was unchanged, and the remainder indicated a slight decline. Two-thirds of hiring managers are actively looking for employees, mainly for sales, managerial, and professional and technical positions. A contact in the construction industry mentioned the talent pool for skilled positions remained limited. Finally, about half of contacts reported that prices charged to customers were about the same during the past three months relative to last year, thirty-five percent reported an increase, and the reminder reported a decrease in prices.

Consumer Spending

Reports from general retailers were mixed. Most contacts reported sales at or above 2014 levels in the most recent quarter. However, many of these contacts indicated that sales fell short of their expectations. Still, the majority of respondents have a somewhat optimistic outlook. A Louisville travel agency noted recent sales have exceeded expectations as consumers appear to have more discretionary income to spend on leisure travel.

The majority of auto dealer contacts indicated an increase in sales since the beginning of July compared with the same period last year, and many expect the trend to continue through the fourth quarter. Several dealers reported a shift toward more high-end and new cars. One dealer reported record sales of its high-end models. A few contacts noted that low gas prices continue to have a positive impact on demand. Others mentioned that parts/service volumes remain high.

Manufacturing and Other Business Activity

Manufacturing activity has been mixed since our previous report. New orders were unchanged on net, with reports of increased orders offset by an equal number of reports of decreased orders. A majority of manufacturing contacts noted that orders have been short of expectations during the third quarter. Expectations for new orders in the next quarter were similarly mixed. Contacts in furniture manufacturing have reported continued expansion in northern Mississippi amid exceptionally strong demand; in contrast, contacts in the steel industry have reported increased competition from imports and weak demand from the energy sector.

Reports from the service sector contacts have also been mixed since the previous report. Several firms that provide healthcare, food, and accommodation services reported new hiring and expansion plans in District states. A majority of contacts in the healthcare industry noted that sales met expectations in the second quarter but were largely unchanged from one year ago.

Real Estate and Construction

Residential real estate activity continued to expand at a steady pace. June year-over-year home sales increased 7 percent in Little Rock, 20 percent in Louisville, 13 percent in Memphis, and 16 percent in St. Louis. June monthly single-family building permits increased 34 percent in Little Rock, 12 percent in Louisville, and 7 percent in St. Louis, while permits decreased 19 percent in Memphis. Contacts noted that residential construction activity is expected to continue to increase through the fourth quarter.

The commercial and industrial real estate market conditions were positive throughout the District. Most survey contacts reported higher demand for office and industrial properties. Class A office vacancy rates remain low in Memphis and St. Louis. Commercial and industrial construction activity was positive throughout most of the District. Contacts in St. Louis noted a large increase in speculative construction of industrial properties. There was an increase in speculative retail areas in Little Rock, catering to smaller build-to-suit retailers and restaurants.

Banking and Finance

A survey of District banks showed improvement in overall lending activity over the past three months. Loan demand was stronger, especially for residential mortgage and commercial and industrial loans. For auto loans, demand was mostly unchanged. Credit standards were unchanged for most loan categories; however, a small number of bankers noted tightening standards for residential mortgages. Creditworthiness of applicants remained unchanged to slightly better in most loan categories. Loan delinquencies were lower for all loan types. Several respondents noted improved loan performance as the job market tightens and local businesses experience increased demand.

Agriculture and Natural Resources

District crop conditions have been mixed since our previous report. Conditions deteriorated slightly for corn and soybeans but improved for cotton and rice. The share of District corn and soybean crops rated in good or excellent condition declined slightly since our previous report. However, close to 20 percent of both the corn and soybean crops across Illinois, Indiana, and Missouri was rated in very poor or poor condition. The outlook for many row-crop farmers remains negative as a result of lasting damage from record rainfall. As of late July, approximately 20 percent of the Missouri sorghum and soybean crops remained unplanted. In contrast, since our previous report, there was a slight increase in the percent of the District cotton and rice crops rated in good or excellent condition. Most of the improvement for the District cotton crop was driven by an improvement in Tennessee. District coal production continued to fall short in July, with 8.7 percent fewer tons produced than in the same month last year. Year-to-date coal production is 5.2 percent lower than at the same time last year.

NINTH DISTRICT--MINNEAPOLIS

Since the last reporting period, the Ninth District economy posted moderate growth. Increased activity was noted in tourism, commercial construction and real estate, residential real estate, and professional services. Agricultural conditions mostly improved. Consumer spending and the energy sector were level, and residential construction and manufacturing were mixed. Activity decreased in mining. Labor markets tightened modestly since the previous report. Overall wage pressures were mild, while prices remained relatively flat.

Consumer Spending and Tourism

Consumer spending was relatively level. A Minnesota mall manager reported “flat sales, and not a lot of movement in inventory.” A Minnesota-based retailer reported that recent same-store sales increased slightly compared with a year ago, while an apparel retailer reported that recent same-store sales decreased. A mall manager in Montana noted even sales compared with last year, and a retailer in northern Montana reported that sales to Canadian visitors were down due to the strong dollar.

Tourism remained strong across the region. The 75th annual motorcycle rally in Sturgis, S.D., attracted over 500,000 visitors, a 30 percent increase from last year’s attendance, according to the state’s department of transportation. A recently opened $5 million visitor center and exhibit space in western South Dakota reported strong attendance. Resort owners in north-central Minnesota reported an “A+ season for the area,” with the exception of properties damaged by a strong windstorm. Weather was also a factor in drought-stricken northwestern Montana, where wildfires broke out at Glacier National Park.

Construction and Real Estate

Commercial construction remained strong across most of the Ninth District. In North Dakota, a $16 million municipal airport project and a $91 million airport expansion were recently completed. In addition, numerous highway expansions and improvements were under way in the energy-producing areas of North Dakota. Commercial building in the Minneapolis-St. Paul market was “the strongest it’s been in decades,” according to a real estate analyst. However, the value of new commercial construction permits was down in Billings, Mont., during July from a year ago. Residential construction was mixed since the last report. The value of new residential construction permits in July was down in Sioux Falls, S.D., and Billings compared with a year earlier. However, in the Minneapolis-St. Paul area, the value of new residential building permits was up 13 percent in July compared with last year.

Commercial real estate activity increased. A real estate firm reported recent strong leasing activity for office space in the Minneapolis-St. Paul area and that landlords were offering fewer concessions. Vacancy rates in the Minneapolis-St. Paul market fell to 9.3 percent by the end of June. Residential real estate activity was robust in many areas. In Minnesota, July home sales increased 19 percent, the median sales price increased 4 percent, and inventory decreased 14 percent compared with a year ago. In western Wisconsin, home sales increased 16 percent in July from a year earlier, while the median sales price increased 4 percent. According to real estate market reports, apartment vacancy rates were below 3 percent in the Minneapolis-St. Paul area; however, apartment vacancy rates increased in the energy-producing regions of North Dakota, as many newly built complexes were less than 80 percent occupied.

Services

Service-providing industries grew since the last report. Home health care services were fast-growing across the Ninth District. Demand for in-home health care, including remote monitoring of patients, was up in many states; a North Dakota home care executive noted that “tele-health services are taking off.” Contacts indicated that the shipping season on the Great Lakes has been very busy this year. An accounting agency in Wisconsin reported that business activity was up 5 percent to 10 percent over last year.

Manufacturing

District manufacturing activity was mixed since the last report. Contacts in the metal forming industry reported exceptionally strong sales, driven by strong demand from commercial construction and power generation; in contrast, demand from agricultural equipment producers and oil extraction decreased. Recreational vehicle makers have seen strong sales recently, and a producer of parts for sports vehicles announced an expansion at a facility in Minnesota. An index of manufacturing activity released by Creighton University (Omaha, Neb.) indicated slight growth in July in Minnesota and South Dakota; the index for North Dakota remained at a level indicating contraction in activity. Developers canceled plans for a proposed $3 billion fertilizer plant in North Dakota due to projected cost overruns.

Energy and Mining

The energy sector was stable since the previous report. The number of active drilling rigs in the District as of mid-August was unchanged from a month earlier. North Dakota daily oil production increased in June to a level close to the record reached last December. A $125 million upgrade to a pipeline that transports crude from North Dakota and Canada to

Minnesota refineries was approved by regulators. Mining activity decreased since the last report. Output at District iron ore mines fell substantially in July compared with a year earlier.

Agriculture

Conditions improved for most District agricultural producers since the previous report. The majority of corn, soybean, and spring wheat acres were listed in good or excellent condition as of mid-August; progress on the spring wheat, oats, and barley harvests was well ahead of recent years. While most of the District remained free from drought conditions, federal disaster aid was offered to ranchers in 15 Montana counties stricken by severe drought. Low crop prices continued to depress farm finances. Three-quarters of respondents to the Minneapolis Fed's second quarter (July) survey of agricultural credit conditions indicated that farm incomes and capital spending had decreased in the previous three months, and a similar share expected them to continue to fall in the coming quarter. Prices received by farmers in June decreased from a year earlier for corn, soybeans, wheat, hay, hogs, milk, and chickens; prices increased for cattle, eggs, and turkeys.

Employment, Wages, and Prices

Labor markets tightened modestly since the previous report. Several restaurant managers in the Minneapolis-St. Paul area recently noted difficulty finding workers to fill vacancies for a variety of positions. Businesses in eastern North Dakota noted continued difficulty finding workers to fill job openings, as did farmers in Montana and north-central Wisconsin. In Minnesota, plans were moving forward for a new distribution center, which would hire 250 workers. A home health care company in South Dakota is expected to add 200 jobs in the next three to five years. In contrast, a mining company in Montana recently announced almost 120 layoffs, and a printing company in South Dakota announced that it laid off 55 employees in response to decreased customer demand.

Overall wage pressures were mild. An economic development official in northwestern Wisconsin noted that businesses generally have not increased wages much, but were offering a boost in pay to recruit workers employed at other firms.

Prices remained relatively flat. Mid-August Minnesota gasoline prices were about the same as they were at the beginning of July. A number of metals prices decreased since the previous report, while several input prices for construction and manufacturing were lower than the last report and a year ago.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District continued to rise modestly in July and early August, with mixed conditions across sectors. Consumer spending continued to grow at a moderate pace as retail, restaurant, and auto sales increased and District tourism activity was flat. Manufacturing activity continued to decline primarily due to weakness in food, beverage, plastics, and metal production, but expectations remained modestly positive. Professional, high-tech, and transportation firms reported moderately higher sales compared to a year ago and expected further gains over the coming months. Real estate activity across the Tenth District continued to increase at a modest pace, but residential real estate contacts expected the pace of expansion to slow over the coming months. Banking contacts reported stable loan demand, loan quality and credit standards as well as a slight increase in deposit levels. Energy activity remained weak as oil prices fell to six-year lows. District farm income remained subdued, agricultural credit conditions weakened, and crop prices dropped sharply as a strong fall harvest was expected. Prices were mixed across sectors in the District, and wage growth slowed despite some reported labor shortages.

Consumer Spending. Consumer spending activity rose at a moderate pace, with further growth expected in the months ahead. Retail sales increased moderately from the previous survey period and remained higher than year-ago levels. Several retailers noted an increase in sales for lumber, upholstery, and summer-related products, while sales of higher-end products were weak. Expectations for future retail sales remained strong, and inventory levels were expected to rise moderately. Auto sales increased moderately and were slightly above year-ago levels, with sales expected to climb higher in the months ahead. Dealer contacts noted increased sales of larger vehicles such as trucks and SUVs, and slower sales for small and hybrid cars. Auto inventories fell modestly, although most contacts expected levels to rebound in the next six months. Restaurant sales remained solid and were moderately higher than year-ago levels, with a slight increase in activity expected over the coming months. District tourism activity was roughly flat since the previous survey, but contacts expected activity to fall moderately in the months ahead.

Manufacturing and Other Business Activity. Manufacturing activity declined at a moderate pace, while other business activity was mixed. Manufacturing shipments fell to their lowest levels of the year, as production decreased in nearly all District states. The downturn was mostly attributable to a sharp decrease in food, beverage, and plastics production and continued weakness in metal production. Expectations for future activity remained modestly positive, but manufacturers' spending plans decreased markedly. Wholesale trade firms also reported a decrease in activity over the previous survey period, although sales were higher than a year ago and expectations were positive heading forward. Professional, high-tech, and transportation contacts reported increasing monthly sales, with activity moderately above last year's levels. Firms expected activity to rise considerably in the months ahead. Most transportation and wholesale trade firms reported modest capital spending plans, while professional and high-tech contacts noted stronger plans for capital expenditures.

Real Estate and Construction. District real estate activity continued to increase modestly in July and early August as both residential and commercial real estate markets expanded. Residential real estate sales and inventories increased modestly since the previous survey period, and sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Increases in home prices remained robust, and additional gains were expected. Expectations for residential real estate activity remained positive, but many respondents expected slower growth over the coming months due to normal seasonal factors. Residential construction contacts reported a moderate rise in housing starts, while contacts at construction supply firms noted a slight decline in activity. Commercial activity continued to expand at a modest pace in July and early August and was moderately above year-ago levels. The commercial real estate market was expected to continue to strengthen at a modest pace over the coming months.

Banking. Bankers reported steady overall loan demand and loan quality, as well as a slight increase in deposit levels since the last survey period. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans, and loan quality was unchanged compared to a year ago. In addition, a strong majority of respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories. Deposit levels increased slightly, with respondents primarily split between reporting increased or steady deposit levels.

Energy. Tenth District energy activity stabilized somewhat, but remained weak. The outlook for the remainder of the year turned cautious as producers dealt with a second drop in oil prices and expectations of a prolonged low-price environment. Since the last survey period, the number of active oil drilling rigs rose slightly but remained low. Drilling permits increased, but some respondents commented that well completions were on hold. Crude oil inventories in Cushing, Oklahoma were mostly flat, despite record high refinery utilization rates and strong seasonal demand for petroleum products. Pressured by global factors, oil prices fell sharply in July and early August to six-year lows. Several respondents also expressed concerns about the lifting of sanctions against Iran and its potential negative effects on prices and production. Seasonal demand for air conditioning has increased the use of natural gas in the power sector and lifted prices slightly.

Agriculture. District farm income remained subdued, and agricultural credit conditions weakened since the last survey period. After rebounding briefly in June, crop prices declined sharply in July and early August due to improved growing conditions and expectations of a strong fall harvest. Although loan repayment rates declined slightly compared to a year ago, bankers reported only minor loan repayment problems, and very few applications for operating loans were denied. Signs of financial strain were strongest in regions most dependent on crop production, such as Nebraska, Kansas, and western Missouri. District contacts were more optimistic in Oklahoma and Colorado, where farm income was supported by positive profit margins in the cow-calf sector. Low crop prices, however, and expectations of reduced farm income led to further modest declines in District cropland values.

Wages and Prices. Prices across industries in the Tenth District were mixed while wage growth slowed in many sectors even though contacts cited labor shortages for workers across many skill levels. Retail input and selling prices both increased at a modest pace, and retailers expected selling prices to rise moderately in the near future. Restaurant menu prices rose modestly. Manufacturers' raw material and finished good prices declined moderately since the previous survey period, and contacts expected these prices to continue to decline in coming months. Transportation input and output prices declined modestly, while construction materials prices rose at a slightly slower pace than the previous survey period. Retail and restaurant sector wages rose slightly, while wages in transportation increased moderately. Contacts cited labor shortages for low-skilled and entry-level positions, skilled technicians, software engineers, and truck drivers.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a modest pace over the past six weeks. Manufacturing demand was mixed. Retail sales were weak, with the exception of strong auto sales. Demand for nonfinancial services held steady or improved, except for railroads which saw decreased cargo volumes. Real estate activity remained solid overall, and loan demand rose slightly. Demand for oil field services remained depressed, and lower oil prices dampened outlooks. Price pressures remained subdued and employment held steady or increased. Outlooks were mostly positive, except in the energy sector.

Prices Prices and input costs were generally stable, with the exception of transportation costs which fell over the reporting period as the price of fuel moved lower. A package delivery company noted that fuel surcharges will be declining through at least October, and airlines said low fuel prices were helping the industry immensely. Food manufacturers reported input prices were generally stable, but said many prices remain at historically high levels. Selling prices were mostly unchanged, although some restaurant contacts plan to raise prices to offset higher food costs and a cement manufacturer and food producer also initiated a price increase.

Oil prices fell roughly $15 per barrel over the past six weeks, reaching the lowest level since 2009. Gasoline and diesel fuel prices also fell, while natural gas prices moved up slightly.

Labor Market Employment in most industries held steady or increased, except in the energy sector where another, but smaller, round of layoffs is underway. Airlines noted increased headcounts from a year ago and restaurants said hiring increased, although they reported difficulty finding suitable workers to fill openings in new restaurants. Legal contacts remarked that business in Houston has slowed but that Dallas seems to be picking up the slack.

Wages were mostly flat to up from six weeks ago. A few staffing services contacts mentioned concern about health insurance costs rising next year. Reports of rising wages to attract truck drivers continued, and upward wage pressures were noted for some specialty skills (diesel mechanics, electrical and software engineers) and also low-skill personnel in machinery and food manufacturing.

Manufacturing Reports from manufacturers were mixed. In construction-related manufacturing, a brick producer attributed a slight rise in demand to improved weather conditions, and a copper wire producer also said demand was better after five soft months due to wet weather. Two cement contacts said the recent drop in oil prices dampened demand and one noted it also delayed plans to expand capacity. A fabricated metals manufacturer remarked that the building boom was getting stronger and an aerospace manufacturing contact said the airline industry was doing great and will be strong for a long time to come.

Demand for high-tech manufacturing was weak over the reporting period. Contacts reported moderate growth in select high-end business products but a general weakness stemming primarily from consumer electronics. High-tech manufacturers noted that slowing growth in Asia has had a significant effect on their expected revenues for the rest of the year, and one respondent noted that they were planning a significant reduction in capital expenditures for next year in response to slowing demand.

Refinery utilization rates were very strong. However, contacts noted that some midstream construction projects were being delayed for the foreseeable future. Domestic sales of PVC have been lackluster this year due to softer demand growth and increased imports (partly due to the strong dollar). The strong dollar also continued to hamper petrochemicals exports.

Retail Sales The retail sector performed poorly since the last report, with contacts reporting decreased sales year over year. The weakness was partly attributed to the strength of the dollar, and one contact said stores along the Texas-Mexico border continued to perform very badly. Contacts said they expect little to no sales growth for the third quarter, with mixed levels of optimism.

Automobile sales demand held steady at good levels over the reporting period, and contacts said the summer selling season was stronger than last year. One contact was short on inventory from all manufacturers and another expects to see inventory shortages in the near future as manufacturers change over to the new model year. Contacts were optimistic in their outlooks for the remainder of the year.

Nonfinancial Services Most nonfinancial services firms reported demand was flat or up from six weeks ago, with the exception of railway services. Demand for staffing services was flat since the last report. One contact noted that demand from chemical and logistics had replaced a lot of the lost demand from oil and gas and another said that the recent dip in oil prices has negatively impacted demand from industrial manufacturers. Demand for professional and technical services increased modestly over the reporting period. Accounting firms noted robust demand and law firms noted increased demand for financial transactions. Contacts in the restaurant and food services industry said demand grew at a moderate pace. Demand was up strongly in the large metro areas but flat in smaller markets, primarily those closely tied to oil and gas activity.

Rail cargo volumes were down, with a particularly steep decline in petroleum shipments. Courier cargo volumes increased at an accelerated pace. Retail (especially e-commerce and furniture) and nondurable wholesale (especially pharmaceuticals and apparel) drove growth. Overall, transportation services contacts stated that their outlooks were not as strong as they were a year ago. Airlines reported no change in demand over the past six weeks. One airline said demand was up slightly from a year ago and that they were seeing record earnings. Another airlines contact said they were seeing record load factors and have a significantly improved outlook from a year ago because of the decline in oil prices.

Construction and Real Estate Reports on home sales and buyer traffic were mixed, but outlooks were unanimously positive. Overall sales of low- to mid-priced homes remained strong, and demand in the Dallas-Fort Worth area continued to be solid. Most contacts that noted slower activity cited seasonal weakness and softness in new home sales at higher price points as factors affecting demand. Home prices continued to trend upward, although many respondents said that builders had less pricing power at higher price points. Apartment demand largely remained strong, except for slight weakening in demand for Class A space in some parts of Houston.

Commercial real estate activity generally held steady, and outlooks remained cautiously optimistic. Demand for office space was strong in Dallas-Fort Worth, while contacts in Houston noted slow leasing activity and slight increases in sublease space. Industrial and retail leasing remained solid and construction active, although one contact said there is somewhat less enthusiasm for new industrial development in Houston.

Financial Services Loan demand grew at a modest pace over the past six weeks. Mortgage lending ticked up, although growth remained muted due to a limited supply of homes for sale. Commercial and industrial loan growth remained steady. Consumer loans, including auto financing and credit cards, continued to grow at a moderate pace. Growth in deposits was slower than usual, and depositors have slowed renewals on time deposits in anticipation of rate increases. More clients requested fixed rates on loans, which would put pressure on future margins if rates go up. Loan standards were unchanged, and loan quality improved slightly. With low oil prices and recent developments in China, outlooks for loan demand were more cautious than in the last report.

Energy Demand for oilfield services remained depressed despite the modest uptick in drilling in the Permian Basin. In addition to more job cuts, further cuts to capital spending have been announced, although these cuts are smaller than the initial round and are expected to be the last round of cuts for 2015. Multiple contacts reported that the credit situation is worsening for small to midsize producers as balance sheets deteriorate and the likelihood of a significant increase in oil prices has declined. In general, more contacts are resigned to “lower for longer” oil prices. Outlooks for the next two quarters are negative.

Agriculture Parts of the district—namely East Texas—have gotten dry again, but overall moisture conditions remained favorable for agricultural production and livestock grazing. The harvest of row crops is underway in some areas and yields have been good overall but quite variable based on when the crops were planted and how wet the fields were at that time. The cattle sector continued to benefit from good pasture conditions, low feed costs and high selling prices, which has prompted herd rebuilding. Grain prices moved lower over the reporting period and farmers were managing costs in light of lower expected revenues.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the District grew at a moderate pace during the reporting period of July through mid-August. Overall price inflation remained limited, but upward wage pressures increased further. Retail sales grew moderately, while demand for business and consumer services picked up further. Manufacturing output grew modestly. Agricultural activity ticked up. Real estate market activity expanded at a moderate pace. Lending trended up, and credit conditions improved somewhat.

Prices and Wages

Overall price inflation was little changed from the limited pace noted in the prior reporting period. Prices for health-care services and pharmaceuticals rose further. Prices for agricultural products generally increased, with reduced acreage and yields creating modest supply shortages for some products. Contacts in regions with strong residential construction growth noted moderate price increases for construction materials. By contrast, retail grocery prices were largely flat, held down in part by added supply from e-commerce retailers. Energy price declines and dollar appreciation held down prices charged by utilities and prices of assorted raw material imports. Contacts in the technology industry reported a drop in advertising costs as firms shifted campaign platforms from traditional desktop computers to cheaper mobile devices.

Upward wage pressures strengthened across the District. Hiring picked up in the information technology (IT) sector, and contacts reported robust across-the-board wage gains for workers in the Internet services and information security sectors. Wage pressures continued to mount in the construction sector with contacts from urban technology centers, such as the San Francisco Bay Area and Seattle, reporting shortages of skilled labor and significant wage increases. A few contacts in the banking sector observed strong demand for talented employees and, due to vigorous competition, were unable to pass higher wages through to the prices charged for banking services. Hospitality sector contacts in some parts of the District expressed concerns that recent minimum wage increases may raise costs in their industry.

Retail Trade and Services

Retail sales grew at a moderate pace over the reporting period. Contacts noted that low oil prices continued to raise purchasing power and boost general consumer demand. Automobile sales remained strong, particularly for trucks and SUVs, with one contact reporting that high demand forced dealers to shop around for additional inventory. Sales of computer hardware and software were strong, spurred in part by the actual or anticipated launch of new technologies. Sales of food and beverage products grew, but at a slower pace than earlier in the year. Clothing and apparel sales expanded moderately after accounting for the normal back-to-school shopping boost. Contacts mentioned that e-commerce sales continued to grow briskly.

Demand for business and consumer services expanded further. Contacts in the technology services industry reported strong growth, with some Internet-based businesses reporting double-digit sales growth over the prior year. Contacts expect business demand for IT services to remain robust, particularly for big data processing and security services. Demand for health-care services grew further, driven primarily by an aging population and the associated increase in the incidence of chronic diseases. Contacts in the legal services industry reported weak demand as firms moved away from hiring outside counselors and instead leaned more heavily on in-house staff.

Manufacturing

Output in the manufacturing sector grew modestly. Contacts reported that new orders of semiconductors expanded at a slow but steady pace. On balance, the biotech and pharmaceutical sectors expanded as financing remained widely available and firms continued to consolidate through new mergers and acquisitions. Deliveries of commercial aircraft were robust with some contacts reporting a backlog of orders fueled by international and domestic demand for newer fleets. Output in the aerospace and defense sector grew modestly, although contacts expressed concern over the uncertainty surrounding the outcome of looming Congressional spending negotiations. Wood product exports remained weak, with competing Chinese supply and weaker demand from that country cited as key factors.

Agriculture and Resource-Related Industries

Agricultural activity grew slightly over the reporting period. Contacts reported that drought remained a serious concern in many areas, with uneven impacts across products. Wheat and potato output grew modestly; however, harvests for nuts, grapes, and fruit trees were earlier and smaller than anticipated. Higher prices somewhat offset lower production in regard to farm revenue, but concerns remained that inadequate water resources pose a significant challenge to future harvests. An ample supply of corn reduced overall feed prices through substitution for more expensive feed products. Output and sales of forestry products grew slowly, and additional supply reportedly is threatened by spreading wildfires in the West.

Real Estate and Construction

Real estate activity expanded at a moderate pace overall but was uneven throughout the District. Contacts reported continued growth for residential and nonresidential construction and sales, with particularly rapid growth in urban technology centers. Some contacts noted an excess supply of retail space and tighter underwriting standards for new construction projects, which constrained the growth of new commercial units in their areas. On balance, demand for new residential units remained solid, and contacts noted that consumer preferences continued to shift towards multifamily units. However, a few contacts noted that residential construction activity slowed in their region, predominantly due to tighter borrowing conditions and shortages of skilled labor and available land. Contacts generally expect residential and nonresidential construction activity to grow over the rest of this year, though at a slower pace compared with the first part of the year.

Financial Institutions

Lending activity grew modestly over the reporting period. Healthy borrower balance sheets bolstered perceived creditworthiness and enhanced lenders' willingness to supply credit. Delinquencies and nonperforming loans receded further. Some contacts reported that borrowers remained somewhat hesitant to leverage and expand operations, which has slowed loan demand growth slightly. Other contacts reported that ample credit availability has enabled borrowers to shop around for the best terms. Liquidity remained robust, and deposit flows continued to increase. Net interest margins remained somewhat compressed, and some contacts noted that interest rate risk will pose a challenge to returns in the near term.