For use at 2:00 p.m., E.D.T.
Wednesday
October 10, 2012

Summary of Commentary on ______________________

Current Economic Conditions

By Federal Reserve District

September 2012

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

September 2012

TABLE OF CONTENTS

SUMMARY …………………………………………………………………….….…... i

First District – Boston …………………………………………………….……..I-1

Second District – New York ……………………………………………..…….. II-1

Third District – Philadelphia ……………………………………………..III-1

Fourth District – Cleveland ……………………..………………………..……..... IV-1

Fifth District – Richmond ……………………………………………….….. V-1

Sixth District – Atlanta ………………………………………………….…. VI-1

Seventh District – Chicago ………………………………………….…...VII-1

Eighth District – St. Louis …………..………………………………..……VIII-1

Ninth District – Minneapolis …………….…………………………………… IX-1

Tenth District – Kansas City …………….……………………………….. X-1

Eleventh District – Dallas …………….………..………………..………. XI-1

Twelfth District – San Francisco ..……….………………….……………….. XII-1

Summary*

Reports from the twelve Federal Reserve Districts indicated that economic activity generally expanded modestly since the last report. The New York District noted a leveling off in economic activity, and Kansas City indicated some slowing in the pace of growth. In general, other Districts reported that growth continued at a modest pace.

Consumer spending was generally reported to be flat to up slightly since the last report. A number of Districts characterized retail sales as expanding at a modest pace, while reports from New York, Chicago, and Kansas City indicated flat or softening sales. Vehicle sales were also generally characterized as stable but up from a year earlier and generally at favorable levels. Used car sales were mixed. Most Districts described tourism as fairly robust, though Kansas City noted some general softening, while New York and Dallas indicated some scattered signs of weakening.

Residential real estate conditions improved since the last report. Most Districts reported strengthening in existing home sales, while prices were described as steady to increasing, with declining inventories noted in the Boston, Atlanta, Minneapolis, Dallas, and San Francisco Districts. Residential construction was also described as rising in most Districts. Commercial real estate markets were mixed since the last report. Office markets showed signs of softening in the northeastern Districts—Boston, New York, and Philadelphia—while most other Districts reported stable or mixed market conditions. Industrial markets showed some strength in the New York, Philadelphia, Cleveland, and Atlanta Districts, while softer conditions were noted in Richmond.

* Prepared at the Federal Reserve Bank of New York and based on information collected on or before September 28, 2012. 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.

Conditions in the manufacturing sector were mixed but, on balance, somewhat improved since the last report. The Boston, Richmond, Atlanta, St. Louis, Kansas City, and San Francisco Districts reported some expansion in activity, whereas New York, Chicago, and Minneapolis reported some weakening in activity. The nonfinancial services sector showed modest improvement in the latest reporting period. Richmond, Minneapolis, Dallas, and San Francisco reported some expansion in activity, while New York and Philadelphia indicated steady or mixed conditions.

Overall loan demand was steady to stronger in most Districts. Credit standards were little changed since the last report, and a number of Districts noted improvements in loan quality or steady to declining delinquency rates. Agricultural conditions were mixed, with drought conditions continuing to adversely affect much of the mid-section of the nation. Activity in the energy sector remained robust.

Districts mostly reported little change in prices of both finished goods and inputs. Prices for agricultural commodities and petroleum-based products were generally reported to be higher, while natural gas prices were said to be low or declining. Employment conditions were little changed since the last report. Several Districts continued to report shortages of highly skilled workers, but otherwise wage pressures remained modest. Philadelphia, Cleveland, and Chicago noted increases in the costs of employee medical benefits.

Consumer Spending and Tourism

Consumer spending was mixed but generally reported to be flat to up slightly over the latest reporting period. Retail sales were said to have improved modestly in the Cleveland, Richmond, Atlanta, Minneapolis, and San Francisco Districts, while sales were characterized as flat to softer in the New York and Kansas City Districts. In general, retail sales were reported to be running only modestly ahead of a year ago. A number of reports noted various factors affecting sales, such as rising gasoline prices, political uncertainty, concerns about the "fiscal cliff" and weather. Atlanta and San Francisco noted that discounters have been outperforming traditional department stores. Cleveland reported that back-to-school merchandise sold well, while Chicago said that such sales were below expectations. Boston noted a pickup in furniture sales, Richmond cited brisk sales at building supplies stores, and San Francisco reported stronger demand at restaurants and food-service establishments.

Vehicle sales were mixed but generally at favorable levels. Sales of new vehicles were steady to stronger and running ahead of comparable 2011 levels. Philadelphia, Atlanta, Minneapolis, and San Francisco described sales as strong, while New York and Chicago reported some moderation in sales in September, after a fairly strong August. Kansas City and Dallas reported some softening or leveling off in sales. The Cleveland and Kansas City Districts noted that crossover SUVs have been selling well relative to less fuel-efficient vehicles. Sales of used vehicles were mixed, with San Francisco describing them as robust but New York and Cleveland characterizing them as flat.

Tourism was generally described as steady at robust levels, though there have been scattered indications of some softening. Boston, New York, Philadelphia, Richmond, Atlanta, Minneapolis and San Francisco described tourism as strong, whereas the Kansas City and Dallas Districts indicated some signs of weakening. Even Districts reporting strength noted some pockets of softening: Boston reported a small drop in advance bookings, New York indicated a dip in activity in mid-September, Richmond noted a significant drop in government-sponsored bookings, and Atlanta mentioned disappointing cruise bookings and on-board spending. The Dallas District noted weakening travel demand from Europe and

Asia; Atlanta also indicated weakening traffic from Europe but added that Canadian and Latin American visitors largely picked up the slack.

Real Estate and Construction

Residential real estate showed widespread improvement since the last report. All twelve Districts reported that existing home sales strengthened, in some cases substantially. Selling prices were steady or rising. Boston, Atlanta, Minneapolis, Dallas and San Francisco noted declining or tight inventories, which have put upward pressure on prices. Modest price increases were reported in the New York, Richmond, Chicago, and Kansas City Districts. New York and Richmond reported relatively strong demand at the high and low ends of the market, whereas Philadelphia and Kansas City noted relative strength for mid-range homes; Boston indicated a shift in the mix toward lower or medium priced homes. New home construction and sales were more mixed but still mostly improved: increased construction and/or new home sales were reported in the Atlanta, Chicago, St. Louis, Kansas City, Dallas and San Francisco Districts. Multi-family construction, in particular, was described as robust in the Boston, New York, Atlanta, Chicago, and Dallas Districts. Residential rental markets continued to be characterized as strong, even in the New York and Atlanta Districts where rents increased somewhat less strongly than in recent months.

Commercial real estate markets were mixed since the last report. Office markets showed signs of softening in the northeastern Districts—Boston, New York and Philadelphia—with New York remarking on substantial new supply coming on the market in early 2013. In contrast, Atlanta, Minneapolis and San Francisco noted some improvement, while most other Districts reported stable or mixed market conditions. Industrial markets showed some strength in the New York, Philadelphia, Cleveland and Atlanta Districts, while conditions were described as sluggish in Richmond and mixed in St. Louis. Atlanta noted weakness in the market for retail space. Commercial construction activity was also mixed: Atlanta, Minneapolis and Kansas City reported some improvement in non-residential construction activity, while Richmond and Dallas noted that activity was sluggish.

Manufacturing

Conditions in the manufacturing sector were mixed since the last report, though on balance, more Districts reported that conditions had improved than worsened. The Boston, Richmond, Atlanta, St. Louis, Kansas City, and San Francisco Districts reported that activity expanded, though growth was generally seen as modest. Activity was reported as mixed in the Dallas District, while the New York, Chicago, and Minneapolis Districts reported that activity weakened, though declines were mild for the latter two. Significant gains in manufacturing related to the construction, energy, and transportation sectors were reported across several Districts, with particularly robust gains tied to the automotive industry. There were exceptions in the Kansas City and Dallas Districts where manufacturing related to transportation equipment was reported as mixed.

Steel production was said to be flat in the Cleveland and San Francisco Districts, and lower in the St. Louis District. Activity related to machinery and equipment was reported as lower in the Philadelphia, Chicago, and Kansas City Districts. Weaker sales growth in the high tech industry was reported by Dallas, and Kansas City said that growth among high-tech firms remained sluggish in its District. The Boston District noted some weakness in the semiconductor industry, while the San Francisco District said that new orders from the semiconductor industry had improved. Manufacturing contacts in the St. Louis District were tentative about the outlook for 2013, and contacts in the Dallas District noted some uncertainty about the outlook due to the upcoming election.

<u>Nonfinancial Services</u>

Activity in nonfinancial services was stable to slightly stronger since the last report. The Richmond, Minneapolis, Dallas, and San Francisco Districts reported that service-sector activity expanded, while such activity was reported as steady in the New York District and mixed in the Philadelphia District. Richmond noted that business activity strengthened for professional, scientific, and technical service firms, and Dallas noted strength in energy, accounting, and audit-related services. There was an increase in activity for a wide range of consulting services in the Boston and Minneapolis Districts. Activity related to health care was reported to be stable in the San Francisco District, but increased significantly in the Boston District. San Francisco reported continued sales growth for a wide variety of technology services, and noted that demand picked up for restaurants and other food-service providers.

Reports on goods transportation services generally remained positive. A pick up in such activity was noted in Cleveland, Atlanta, Richmond, and Dallas, while such activity was said to be flat in Kansas City. Contacts in the Cleveland, Atlanta, and Dallas Districts reported strong shipments of automotive, construction, and energy-related products. Port activity expanded to record levels in the Atlanta and Richmond Districts. Air cargo volume increased in the Atlanta District, but declined in the Dallas District due to weakness in the international sector.

Banking and Finance

Overall loan demand increased slightly on net since the last Beige Book report. New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, and San Francisco reported stronger loan demand on balance, while Kansas City and Dallas reported flat demand and Chicago reported somewhat weaker demand. Most Districts reported an increase in mortgage lending, especially for refinancing purposes. New York, Cleveland, St. Louis, Kansas City, and San Francisco reported some increase in demand for commercial and industrial loans, while demand for business loans was weak in Chicago and Dallas, and was characterized as mixed in Richmond. Demand for consumer credit, particularly for auto loans, was said to be strong in the Cleveland, Atlanta, St. Louis, Dallas, and San Francisco Districts, while consumer loan demand was more limited in New York, Richmond, Chicago, and Kansas City.

Credit standards were little changed since the last report. However, New York noted some tightening for consumer loans and residential mortgages, while Richmond and Chicago reported some easing for commercial and industrial loans. Still, loans remained difficult to obtain for many small businesses in the Cleveland, Richmond, and Chicago Districts. Banking contacts in the Philadelphia, Cleveland, Dallas, and San Francisco Districts reported stiff competition among lenders. Philadelphia, Kansas City, and Dallas noted general improvements in loan quality, and delinquency rates generally held steady or declined in the New York, Cleveland, and Dallas Districts.

Agriculture and Natural Resources

Agriculture conditions were mixed since the last report. Drought conditions continued to hurt the agriculture sector in the Chicago District, parts of the Minneapolis District, and the Kansas City and Dallas Districts. However, agriculture activity was reported as higher in the Atlanta and St. Louis Districts, as well as in parts of the Minneapolis District, and was reported as stable in the San Francisco District. The Chicago and Dallas Districts noted that increased rainfall had improved crop conditions. In the Dallas District, crops were reported to be mostly in fair to good shape, with production levels ahead of last year but below average due to ongoing dry conditions. Producers in the St. Louis District reported that crops were generally in better condition than at the time of the previous report, and harvest rates for corn and rice were well ahead of their five-year averages. Contacts in the Atlanta District reported that the rise in some crop prices related to the drought in the Midwest led to an increase in crop production in the Southeast. Higher feed prices continued to adversely affect livestock producers in the Atlanta, Chicago, Minneapolis, Dallas and San Francisco Districts, though the Chicago District noted some easing in higher feed prices which provided a bit of relief.

Activity in the energy sector remained strong, with the Minneapolis, Kansas City, and Dallas Districts reporting robust gains in activity. The Minneapolis District reported that oil production hit a new record high in North Dakota, and the Cleveland District reported that oil and natural gas production held steady. Natural gas exploration was reported as lower in the Kansas City District and in parts of the Minneapolis District. Coal producers in the Cleveland District reported declines in production.

Employment, Wages and Prices

Employment conditions were little changed since the last report. The Boston, Cleveland, Atlanta, Minneapolis, and Dallas Districts indicated that employment levels were flat or up slightly, with stagnant demand and uncertainty related to the upcoming presidential election, U.S. fiscal policy, and European debt issues cited by some as restraining hiring. The

New York and Chicago Districts noted weaker labor market conditions, and conditions were described as mixed in Richmond. Firms in the St. Louis District reported an increase in hiring plans. Several Districts continued to report that employers were having difficulty filling highly skilled positions. In response, a few Districts noted that firms were starting to increase training programs to meet their staffing needs.

Most Districts reported that wage pressures remained modest since the last report, though an increase in the cost of employee medical benefits was noted in Philadelphia, Cleveland, and Chicago. To the extent that wage increases were observed, they were concentrated among highly skilled workers in information technology, health care, professional services, and some of the skilled trades, according to reports from the Chicago, Minneapolis, Kansas City, and San Francisco Districts.

Price pressures were said to be contained as most Districts reported that both finished goods and input prices were little changed since the last report. Higher prices were cited by some Districts for agricultural commodities and petroleum-based products, although low or declining natural gas prices were reported in the Atlanta, Kansas City, Dallas, and San Francisco Districts. Contacts in the Atlanta, Chicago, Kansas City, and Dallas Districts noted that drought conditions continued to result in higher feed prices. There were scattered reports of higher crop prices starting to show through to food prices at the consumer level. Atlanta reported an increase in corn and soybean prices, while Chicago and Kansas City reported that these prices declined somewhat. Slightly lower prices for some technology-related products were reported in the San Francisco District.

FIRST DISTRICT – BOSTON

Reports from business contacts in the First District indicate the region's economy is expanding at a modest pace. Most retail and manufacturing contacts report sales or revenue gains from a year earlier, although the manufacturers say growth is slower than earlier in the year and some have seen actual declines. Consulting and advertising firms are generally upbeat, with results depending on specific client industries. Residential real estate contacts note increases in sales and only small changes in median sale prices. Commercial real estate leasing activity has slowed somewhat, while investment conditions remain positive. With the exception of a consulting firm that has expanded recently and a manufacturer citing especially strong growth, responding firms are doing only modest hiring. While contacts in most industries mention the upcoming election, so-called fiscal cliff, and Europe as risk factors increasing uncertainty, it is only in commercial real estate leasing that respondents say current activity levels are measurably damped by such concerns.

Retail and Tourism

First District retailers contacted for this round indicate that sales through mid to late September are slightly above 2011. Year-over-year sales increases in recent months range from low single-digit to high single-digit percentage gains, although one retailer reports that its 2012 sales to date are 2 percent to 3 percent below last year's. Furniture sales have picked up after declining during the summer, while spending on apparel and household items remains strong. Contacts express some concern that consumer sentiment could be negatively affected by domestic politics and the fiscal cliff, which increases their uncertainty about how well the end-of-year 2012 holiday sales season will turn out. While such concerns lead retailers to expect the U.S. economy will remain flat over the next 6 to 8 months, respondents are nonetheless cautiously optimistic that their 2012 revenues will end up slightly ahead of 2011 levels.

The Boston tourism industry continues to benefit from a rebound in domestic and international business travel, although the leisure sector has seen a small drop in advance bookings compared to six months ago. The tourism industry has slightly downgraded its overall forecast for 2012, but this year's performance looks to be the industry's best since 1999–2000. Expectations are that Boston tourism will be strong again in 2013, with revenues rising slightly from 2012.

Manufacturing and Related Services

Discussions with manufacturing contacts in the First District paint a picture of an economy that is growing slowly but, on net, still growing. About half the respondents report a substantial slowdown in growth or outright fall in sales in the most recent period compared with a year earlier. Three contacts supplying equipment to factories note weakness in the semiconductor industry, which they say reflects its idiosyncratic cycle and not the macro economy. A contact in the toy business reports that orders for Christmas are coming later and later in the year, partly because lead times have shrunk and firms can order in September for November delivery.

Not all responding firms report softening. For example, a contact at a pharmaceutical firm says the company's growth is strong. The firm plans to hire 1,000 people over the next year, which represents a 20 percent increase in headcount; the hires will be mostly in sales and marketing.

For the most part, firms reporting weakness indicate it has yet to affect either hiring or investment substantially. Only about one-quarter of respondents say they are actually cutting staff; for one firm, the layoffs are in Europe and another firm attributes them at least partly to increased productivity. Several contacts report that their firms are re-evaluating their benefits structures as a way to conserve cash. No contact reports making any adjustments or even projecting any adjustments to their capital spending plans. Indeed, one contact at a semiconductor equipment maker says they are maintaining their long-term investment plans despite quarter-on-quarter sales declines on the order of 20 percent in the third quarter which are expected to continue in the fourth.

In general, firms remain somewhat tentative about 2013, although this is partly because they are currently engaged in their annual "planning cycles" for 2013. One contact in the industrial distribution business says he expects they will plan for 1 percent to 2 percent growth in 2013, in line with Q3 this year; by contrast, their 2011 plan for 2012 assumed 5 percent to 6 percent sales growth. One contact in the publishing business says that they will "continue to thrive on low single-digit organic growth." Many contacts say that slow growth is the "new normal."

Selected Business Services

Consulting and advertising contacts in the First District report a generally positive, although not exuberant, third quarter. Only one contact cites flat revenues, while the others note varying levels of growth largely determined by the prospects of their respective client bases. Marketing and advertising contacts report weaker conditions than consulting firms. They note a large degree of uncertainty in the market as well as a shift in demand towards services focused on social media and e-commerce. Demand for health care consulting services has skyrocketed due to "unprecedented" levels of merger and acquisition activity among health care providers and the need for improved efficiency as a result of the ACA. At the same time, firms focused on the pharmaceutical industry have experienced slow growth because their clients have been hurt by blockbuster drugs losing patent protection and cost pressures from governments. Economic consulting remains strong, reflecting high levels of complex high-stakes litigation; management and strategy consulting contacts cite a recent upswing in business.

Contacts report little to no cost increases, with the exception of higher travel costs, and are keeping their prices relatively unchanged. Most contacts record some hiring, mostly in the low single digits, although one contact in government policy consulting has increased staff by 25 percent since last year to address a large backlog and ongoing demand growth. Plans for future hiring are modest.

Most contacts expect a continuation of current growth trends for the rest of 2012 and are more bullish about 2013. Respondents express concern about factors with the potential to slow the macro economy, such as political uncertainty, the fiscal cliff, and Europe. Several firms rely heavily on government spending and are thus especially concerned with the fiscal situation and upcoming election. Nevertheless, no respondent expects another recession and the overall tone is cautiously optimistic.

Commercial Real Estate

Contacts across the First District report that commercial real estate fundamentals have been basically flat in recent weeks. Leasing activity is said to be down in Boston as firms say political uncertainty makes them reluctant to make leasing commitments in advance of the national election. At the same time, the credit environment remains favorable, as interest rates on commercial real estate loans remain very low by historical standards. One contact notes that the supply of high-quality commercial properties for sale has declined recently, and hypothesizes that owners have nowhere better to park their money right now. Construction activity is proceeding as expected on large commercial projects in Boston. While the multifamily sector remains strong across the region, with numerous apartment buildings under construction in Boston in particular, one contact surmises that additional apartment projects under discussion may be delayed or shelved pending rent discovery once current projects come on line.

Contacts express a mix of cautious optimism and generalized uncertainty concerning the outlook; the fiscal cliff and Europe are noted as key risks to growth. Some contacts mention a longer-run concern regarding the consequences of an inevitable eventual increase in interest rates; the risk is that net operating incomes will not increase enough to offset increased financing costs when loans currently being underwritten at very low rates require refinancing.

Residential Real Estate

Year-over-year sales growth continued in August in both single-family home and condominium markets throughout the First District. According to contacts, low interest rates and affordable prices contributed to improving sales figures, along with increases in residential rents. Several contacts report improving conditions for borrowers, but many contacts say that qualifying for a mortgage remains difficult. As for prices, contacts in the region report mixed movements in median sale prices, with some areas experiencing modest price appreciation and others moderate depreciation. In the Greater Boston area, contacts say a slight decline in the median sale price was unexpected in light of significant demand and dwindling inventory levels; they attribute the decline to significant increases in the sales of low to mid-tier properties. Throughout the region, inventory continues to decline. Contacts say they fear declining inventory will discourage buyers searching for homes as well as potential sellers who may not be able to find another well-kept property. Increasingly, properties in "move-in condition" receive multiple bids, sometimes above original asking prices.

Contacts expect sales to continue to grow on a year-over-year basis in the next several months. Nonetheless, many note that the recovery remains fragile and could be derailed by deterioration in economic conditions. Declining inventory levels also remains a concern, but several contacts expect an influx of sellers in the spring market. Median sale prices are expected to remain flat or improve modestly in the coming months.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has held steady since the last report. Prices of finished goods and services have generally been stable. The labor market has shown further signs of softening, as fewer business contacts report that they are adding workers, and a major employment agency describes hiring activity as sluggish. Retailers, including auto dealers, note some leveling off in sales activity following increases. Tourism activity has generally held steady at a high level, though there were some indications of softening in mid-September. Residential real estate markets have shown further signs of improvement. Office markets have shown some signs of slackening, but industrial markets have picked up modestly. Finally, bankers report increased loan demand, except on consumer loans, steady to tighter credit standards, and lower delinquency rates on commercial loans and mortgages.

Consumer Spending

Retailers report that sales activity has remained flat in recent weeks. A major retail chain reports that sales in the region were sluggish in August and especially in September, running well below comparable 2011 levels. Some of the weakness is attributed to unseasonably mild weather, which dampened sales of seasonal merchandise. A major mall in upstate New York describes sales activity as “stagnant”, with sales flat to down slightly from a year ago in August and September. The pricing environment is described as quite promotional, and acquisition costs of goods are characterized as mostly stable to declining modestly. Auto dealers in upstate New York report steady sales activity. New vehicle sales were up 6-9 percent from a year earlier in August but are projected to be flat to up slightly in September. Sales of used cars have been mixed since the last report, while dealers’ service departments note some slowing in business. Wholesale and retail credit conditions remain favorable.

Tourism activity has been steady at a fairly robust level since the last report, despite hints of weakness in mid-September. A trade association survey conducted in September indicated that 70 percent of hoteliers across New York State report that business over Labor Day weekend was at least as good as in 2011. Similarly, occupancy rates and room rates at Buffalo hotels are reported to be running well ahead of 2011 levels. Manhattan hotel occupancy rates were little changed at slightly over 90 percent in August, with room rates continuing to run a modest 2 percent ahead of a year ago. Anecdotal reports for September suggest that business remained strong in the early part of the month but tapered off a bit at mid-month. Similarly, weekly attendance and revenues at Broadway theaters were running ahead of comparable 2011 levels in August and early September but slipped well below year-earlier levels for the third week of the month. Finally, consumer confidence fell in August and was little changed at a low level in September, according to the Conference Board's monthly survey of residents of the Middle Atlantic states (NY, NJ, Pa).

Construction and Real Estate

Residential real estate across the District has continued to improve. Housing markets in metropolitan Buffalo reportedly flattened out in August but picked up sharply in September. Northern New Jersey's housing market has shown further modest signs of improvement, and there has been a sustained pickup in rental apartment construction, as builders appear to see a persistent shift toward renting. Home prices across northern New Jersey appear to recovering gradually—an industry expert notes that foreclosures and distress sales are no longer pushing down prices of other properties, though they are dampening any increase. Manhattan's co-op and condo market has remained stable—both in terms of sales activity and prices. The upper end of the market has been relatively strong, partly fueled by foreign buyers. Market conditions are reported to have strengthened in Brooklyn and especially Queens in the third quarter, while Long Island's housing market is weak but stabilizing. New York City's apartment rental market remains robust: rents have decelerated a bit in recent months but are still estimated to be rising at a 6-8 percent annual pace.

Commercial real estate markets showed signs of softening in the third quarter. In particular, office vacancy rates in metropolitan Syracuse, Albany, northern New Jersey, Westchester and

Fairfield counties climbed to their highest levels in a number of years, while asking rents were flat to down slightly. Office vacancy rates also edged up in Manhattan, after drifting down over the first half of 2012. Sluggish leasing demand from financial and other firms is reported to be more than offsetting strong leasing demand from tech firms. A substantial amount of office space is scheduled to come onto the Lower Manhattan market in early 2013.

Industrial markets have strengthened: vacancy rates have declined modestly since the beginning of the year in northern New Jersey, Westchester and Fairfield counties, and the Buffalo and Syracuse areas; but rates have held steady in Long Island and metropolitan Rochester. Industrial rents have begun to rise modestly across most of the District for the first time in a number of years.

Other Business Activity

Manufacturers across the District indicate some further softening in general conditions since the last report, whereas contacts in most other sectors report that activity held steady. Both manufacturers and other contacts report little change in input price pressures since the last report, though a number of manufacturing contacts say they plan to hike selling prices in the months ahead.

Labor market conditions across the District have been tepid since the last report. Business contacts generally indicate that they have scaled back hiring activity in recent months, and almost as many business contacts say they plan to reduce as increase employment in the months ahead. A major New York City employment agency specializing in office jobs reports that hiring activity remained sluggish after Labor Day—a time when recruitment activity typically picks up. Moreover, the weakness is reported to be fairly broad-based, though most evident in the finance sector.

Financial Developments

Small to medium sized banks in the District report increased demand for all loan types except consumer loans, where demand was unchanged. Bankers also report increased demand for refinancing. Bankers report some tightening in credit standards for the household sector: roughly one in five bankers report tighter standards for consumer loans and residential mortgages, while no respondent reports easing standard in any individual loan category. Respondents indicate a decrease in spreads of loan rates over costs of funds for all loan categories except for consumer loans. The decrease in spreads was most prevalent in commercial mortgages. Respondents also indicate a decrease in the average deposit rate. Finally, bankers report some decrease in delinquency rates for commercial and industrial loans and commercial mortgages but no change for consumer loans and residential mortgages.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District has continued to improve – growing modestly – since the previous Beige Book. A couple of sectors grew faster than the average, while a few declined slightly. Manufacturing activity declined somewhat, although a slight increase in new orders may presage a turnabout. Retail sales growth has continued at a modest pace since the last Beige Book, while auto sales have continued to increase at a strong pace. Lending volumes at Third District banks have continued to grow modestly, and credit quality has continued to improve. Sales of new homes have slowed since the previous Beige Book period, while brokers report strong growth in sales of existing homes (from previously low levels). Commercial real estate contacts reported less leasing activity and continued weak demand for new construction. Service-sector firms reported mixed results with stronger tourist visitation, a slowing defense sector, and modest growth across most other service sectors. Price pressures have changed little since the last Beige Book.

The overall outlook appears somewhat more optimistic relative to the views expressed in the last Beige Book, as contacts are beginning to look beyond the pending election and looming fiscal cliff. Expectations among manufacturers improved significantly for overall activity over the next six months, while plans for capital spending and hiring were mixed. Auto dealers and real estate firms are more optimistic, as their positive trends gain traction. Holiday sales expectations are strong among many general retailers. Financial- and service-sector contacts express a mix of views regarding the future – generally positive with varying degrees of caution.

Manufacturing. Since the last Beige Book, Third District manufacturers have continued to report overall declines in shipments, but a slight increase in new orders. Makers of lumber and wood products; stone, clay, and glass products; fabricated metal products; and instruments have reported gains since the last Beige Book. Lower activity was reported by makers of primary metals, industrial machinery, and electronic equipment. One manufacturer summarized the broad economic climate as a summer slowdown with sequential improvement, marked by a definite increase in August.

Optimism among Third District manufacturers that business conditions will improve during the next six months has grown significantly since the last Beige Book and is evident across most sectors. Plans were recently announced to restart the third of three District refineries that were all at risk of closing one year ago; the other two were previously rescued. Firms have raised their overall expectations of future hiring, but plans for capital spending have softened since the last Beige Book.

Retail. Overall, Third District retailers reported little change between the modest year-over-year sales growth in August compared with July, although one contact stated that his store experienced the strongest Labor Day weekend in years. This year’s sunny weather certainly helped compared with last year’s storms. One department store manager reported that back-to-school sales did well, cold-weather clothing is moving better than last year, and discretionary “fun” items are selling well. Retail contacts are bullish for the upcoming holiday season, speculating that people will be primed to respond to upbeat holiday advertising after the long, negative political campaign season. An expectation of greater seasonal hiring has been widely discussed. And the holiday calendar provides a 32-day shopping season – the longest possible.

There has also been little change in the pace of auto sales since the last Beige Book. Pennsylvania dealers reported ongoing moderate growth in August; New Jersey dealers recorded a third consecutive strong sales month in August and described September sales as “good.” The outlook among dealers remains positive. One contact stated “confidence is back, credit is back, and leasing is back.” However, dealers remain somewhat cautious through this political season regarding consumer uncertainty.

Finance. Overall, Third District financial firms have reported continued growth since the previous Beige Book. Loan volumes grew modestly across most categories. Contacts describe fierce competition for small business loans from large and small banks. Despite high charge-off rates and ongoing household deleveraging, credit card outstandings have been virtually flat since the last Beige Book. Most contacts report that the financial health of households, businesses, and financial institutions continues to improve. The overall outlook among lenders remains positive.

Real Estate and Construction. Residential builders reported a drop-off in traffic and slower sales in August and early September – a disappointing conclusion to their primary sales season. Builders lament that people are choosing to rent rather than buy even when local rents exceed the total cost of owning a home. Residential brokers reported somewhat stronger year-over-year sales growth in August than expressed in the last Beige Book and continued strength into September. Inventory levels of real estate listings remain at lower levels than one year ago with no signs of a large emerging shadow inventory. Multiple bids are reported for homes priced between $250,000 and $400,000; more very high-end listings are beginning to appear and test the market. Builders and brokers remain cautiously optimistic.

Nonresidential real estate contacts reported a big slowdown in August and a disappointingly small rebound in September. However, conditions remain better than one year ago, with more prospects, faster decision-making, and few downsizings outside of southern New Jersey. There is very little demand for new office/commercial buildings, but the industrial market remains strong, especially in the Lehigh Valley and central Pennsylvania markets. Center City Philadelphia and adjacent areas in West Philadelphia and the Navy Yard are an exception, with very busy design/build work for higher education, hotels, and multifamily apartments and condominiums. However, many professional architects and engineers – experienced and novice – remain out of work or underemployed. Nonresidential real estate contacts retain an outlook of slow, steady growth.

Services. Third District service-sector firms have reported mixed growth since the last Beige Book. Tourist areas along the Delaware and New Jersey shores, in the Poconos, around Philadelphia, and throughout central Pennsylvania have reported strong visitation and/or lodging numbers relative to recent years. Atlantic City casinos and some neighboring shore areas were exceptions. Jersey shore businesses expressed considerable disappointment over cautious tourist spending; Delaware shore business also noted some caution. However, the tourist season concluded on a high note as the Labor Day weekend benefited by comparison to last year when severe weather disrupted end-of-summer plans. District staffing firms reported little change in orders, hiring mix, and wages. One firm continued to report extremely busy orders for manufacturing workers – better than in recent years – but expects a seasonal decline beginning in October. Demand for professional/business and health-care staff remains slower. Defense-related firms reported that there are fewer large contracts on which to bid and that they have continued to lower their expectations for 2013 and 2014 as sequestration or an alternative budget deal nears. Overall, other service-sector firms report a modest but positive outlook for six months out.

Prices and Wages. Price levels have continued to show little overall change since the previous Beige Book. Once again, cost factors have risen slightly among manufacturing firms but the increase is less than it was during the previous Beige Book; prices received by manufacturers fell. Homebuilders and retailers indicated few significant changes in their cost pressures or prices they charge. One homebuilder attempted to raise prices but couldn’t make them stick. Real estate contacts continue to report that lower-cost homes have reached a price floor in most markets and are beginning to rise slightly in some neighborhoods. Leasing agents have been unable to charge higher leasing rates in nearly all markets, except for industrial space along the corridor from Carlisle, PA, to the Lehigh Valley. Contacts from all sectors report little or no wage pressures, other than for medical benefits.

FOURTH DISTRICT – CLEVELAND

Business activity expanded in the Fourth District since our last report, although the rate of growth remains modest. On balance, manufacturing output rose. In the real estate sector, nonresidential construction picked up, while reports on single-family housing starts were mixed. Sales of existing family homes increased. Retailers and auto dealers saw a modest improvement in sales during August and September on a year-over-year basis. Shale gas activity continued at a robust pace, while coal production fell below prior-year levels. The slowdown in freight transport volume, which began in the second quarter, has abated. And the demand for business and consumer credit moved slightly higher.

Little net hiring was reported across industry sectors. We heard a number of reports that recruiting qualified workers for open positions remains difficult. Staffing-firm representatives said that the number of job openings and placements has slowed during the past six weeks. Vacancies were found primarily in healthcare and manufacturing. Wage pressures are contained. Input prices were stable, apart from increases in some agricultural commodities and petroleum-based products.

Manufacturing. District factories reported that production levels were stable or increased during the past six weeks, while new orders weakened. Rising production was mainly limited to goods sold to the construction, energy, and transportation sectors. Compared to prior-year levels, output was higher for a majority of our contacts. Several producers pointed to a rise in inventories, but said that they are manageable. The outlook by manufacturers was mixed. Steel producers and service centers reported that shipping volume was flat or down and they continued to reduce their inventory. A seasonal pickup that typically begins in September has yet to materialize. Several contacts noted that competition (volume and pricing) from offshore producers has intensified. Steel producers do not expect market conditions to change appreciably in the upcoming months. District auto production recovered in August on a month-over-month basis, as auto plants returned to normal production schedules. Compared to a year ago, production figures were down slightly for domestic producers, while showing a moderate rise for foreign nameplates. The latter is attributable to the abatement of supply chain issues.

Little change in capacity utilization was reported, although a majority of our contacts said that rates were slightly below normal levels. Capital spending remained on track, but several producers intend to delay some projects during the upcoming months. Raw material prices were either flat or trended lower, while finished goods prices were steady. Little change in payrolls was noted, although attracting skilled workers remains very difficult. Wage pressures are contained.

Real Estate. Reports from home builders on single-family housing starts were mixed. Compared to a year ago, construction activity was described as similar. On balance, builders expect a modest rise in new-home construction in the near term. Spec building remains on the low side, due in part to difficulty in obtaining financing. List prices of new-homes held steady, though most builders indicated that they have cut back on discounting. Sales contracts were found across all price-point categories. Reports of higher prices for lumber, shingles, and concrete were widespread, rising mainly in the mid-single digits. Sales of existing homes continued to show improvement, although inventory is tight in the mid-price range.

Nonresidential contractors reported that business activity continued to improve, and most are satisfied with their backlogs going into 2013. Project work is driven by industrial (manufacturing and energy), education, healthcare, multi-family housing, and some public works. Most contractors expect that the momentum built up this year will be maintained in 2013, though some commented that customers seemed hesitant about moving forward at this time. Material price increases were mainly limited to petroleum-based products.

Residential and nonresidential builders reported little change in their payrolls. Some seasonal layoffs are expected. A few builders said that they would like to hire more workers but are hesitant to do so because of uncertainty surrounding the upcoming election and the fiscal cliff. Wage pressures are contained, but sharp increases in health insurance premiums were noted by many contacts. Subcontractors are holding their prices steady and many are finding it difficult to recruit skilled trades.

Consumer Spending. Retailers reported a modest improvement in sales during August and September relative to year-ago levels. Consumers have responded positively to new lines of fall merchandise and back-to-school sales were characterized as good. Some retailers noted that consumers in middle-income brackets have entered a holding pattern until after the elections. Our contacts expect growth in the fourth quarter to be in the low-to-mid single digits relative to 2011. Vendor pricing has been stable, with little change in shelf prices. Grocery store chains reported that their costs have risen due to the summer drought. Attempts at passing through higher food prices were met with mixed results. Capital spending for the year remains on target. Two retailers noted that they may accelerate spending before year's end, mainly for distribution equipment. No permanent hiring is expected other than at new stores. The number of temporary workers expected to be hired for the upcoming holiday season is planned to be a little higher than last year.

New-vehicle sales were stronger in August and September when compared with the same time period a year ago. Dealers reported that sales of fuel-efficient cars and crossover vehicles are doing particularly well. New-vehicle inventories increased since our last report and most dealers described them as acceptable. Dealers expect little change in monthly sales for the remainder of 2012. Used-vehicle sales were flat, which was attributed primarily to a lack of inventory. Most dealers reported that credit is more readily available and leasing is growing in popularity. Hiring for sales and service positions remains at a slow pace. Recruiting qualified people is challenging.

Banking. Demand for business credit moved slightly higher since our last report, with requests mainly for commercial loans and refinancings. Several small business owners told us that it remains difficult for them to obtain credit. The interest rate environment was described as very competitive. Consumer lending was up a little, driven by demand for auto loans and home equity lines of credit. In the residential mortgage market, activity is fairly strong. Although a majority of applicants are still looking to refinance, many bankers noted an increase in new-purchase requests. No changes were made to loan application standards. Delinquency rates continued to improve across consumer loan categories; however, several bankers reported an uptick in delinquencies from commercial customers. Core deposits grew, especially in transaction accounts. Bankers expect little change in payrolls for the remainder of this year.

Energy. Conventional oil and natural gas production held steady during the past six weeks, with little change projected in the upcoming months. Wellhead prices for natural gas rose slightly. Drilling rigs are migrating from other states to Ohio to take advantage of the higher-priced wet gas found in the Utica shale. To date, 375 permits have been issued in Ohio for drilling horizontal shale gas wells. Thirty wells are now producing, with 50 expected to be in production by year's end. Coal producers reported production declines in 2012 of between 10 and 50 percent over prior-year levels due to lower demand from electric utilities and a stricter regulatory environment. Reports of idled mines are widespread. Spot prices for export metallurgical coal declined further, while domestic steam coal prices rose slightly due to tight supplies. Production equipment and materials prices were flat in most categories, other than for diesel fuel. Capital outlays remain at projected levels. Several coal operators announced layoffs. In Ohio, a regulatory agency more than doubled its employment size over the past 12 months to cope with expanding shale gas activity.

Freight Transportation. Reports on freight transport indicated that volume is returning to normal trends after a second-quarter slowdown. Industries which contributed to the pickup include automotive, construction, and shale gas. However, lower-than-expected harvests have negatively impacted revenues for some carriers. Most of our contacts believe that their companies' growth objectives for 2012 will be met. Apart from fuel prices, costs associated with truck maintenance held steady. Carriers have successfully passed through higher diesel prices via a surcharge. Reports on capital spending were mixed. Half of our contacts said that 2012 expenditures are on track. Others reported a slowdown or postponement in purchasing new trucks, citing a sluggish economy, uncertainty about the fiscal cliff, and difficulty obtaining financing. Hiring is for replacement and adding capacity. Recruiting qualified personnel remains difficult, which is contributing to wage pressures.

FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic activity improved modestly since our last report. Most manufacturing contacts reported activity firmed somewhat. Port activity continued to expand. Retailers reported that sales grew on balance, and non-retail firms cited marginal revenue expansion. Lending activity improved somewhat, although most applications continued to be for refinancing. Residential real estate activity continued to strengthen; however, areas of weakness remained in the District. Tourism contacts reported healthy bookings as the summer season ended. Commercial real estate reports were mixed for private-sector projects and weaker for government-related projects. Labor market reports were also mixed, with accounts of modest increases in employment along with major layoffs and hiring freezes. Price changes were generally small in the manufacturing and services sectors in recent weeks.

Manufacturing. District manufacturing activity firmed somewhat after having softened in earlier months. An auto supplier reported that his firm's sales continued to exceed expectations, which required overtime and additional hiring. A manufacturer of wallboard indicated that sales at his company rose, with the last few weeks being the busiest this year. A manufacturer of residential door frames said that demand in late summer was fairly flat, but he expected sales to improve over the next six months. In contrast, a producer of electrical components cited very weak business conditions, which resulted in layoff announcements and plans to close the factory at the end of this year. According to our latest survey, growth slowed in prices of both raw materials and finished goods over the past month.

Activity at most District ports expanded over the last few months. Port officials reported that both import and export activity strengthened, although one official attributed some of the gain to increased market share. According to another contact, the shipping season peaked earlier than in past years, which may have been due to manufacturers and retailers moving goods in advance of a threatened labor disruption at East Coast ports. Nonetheless, imports were bolstered by continued demand for commodities and components used by manufacturers. One contact stated that exports to China of some commodities and bulk goods were holding up better than expected. In addition, exports of autos and heavy machinery to Europe remained strong.

Retail. Retail sales reports from our contacts were mixed, with modest improvement on balance. In Virginia, a grocer stated that customer counts were up, but shoppers were spending less, while another grocery contact commented that he will be opening several new stores by early next year. A major building supply firm reported a significant increase in the volume of wallboard sales; other inputs for major renovation work also picked up. Several small retailers said that they were preserving margins by reducing payrolls and cutting expenses. However, collections on customer accounts have become a bigger problem, according to one contact. Merchants remained somewhat guarded in their outlook for spending during the holiday season. Small retailers were conservative with inventories; they expected that their suppliers would be flexible enough to make quick shipments if reorders should be needed. To help push early purchases, several big-box retailers were advertising a return of their lay-away programs, and other merchants started offering lay-away for the first time. In addition, a number of internet retailers were offering an online lay-away program. District automobile sales varied, according to dealers. A contact at a large dealership reported high foot traffic, observing that buyers gravitated to "the deals," such as substantial rebates. Retail prices rose at a somewhat slower pace in recent weeks, according to our latest survey.

Services. Non-retail services providers reported slight gains overall since our last report. Business activity strengthened for professional, scientific, and technical services firms; a contact at a Maryland telecommunications firm noted that demand was strong for tech-related security services. However, there were also reports that the possibility of government spending cuts associated with sequestration caused firms to delay business decisions. One industry executive commented, "We are hoarding cash." Healthcare firms continued to restructure to accommodate the post-reform environment in that sector. According to a contact at a private healthcare group, that organization had begun shifting away from low margin, basic services. A Virginia airport executive noted that increased passenger traffic in recent weeks had recovered from a drop earlier in the summer. Prices moved up more slowly at services firms.

Finance. Lending activity improved marginally from weak levels since our last report. One banker reported continued strength in refinancing demand, which accounted for three out of four commercial loan applications. A North Carolina banker noted that, while most home mortgages were for refinancing, applications were fifty percent above normal levels and over one third were for either purchasing or building a home. Demand for commercial loans across the District was mixed, according to several contacts, with modest improvements coming from the medical, legal, and other services-related segments of the market. An official at a large bank described consumer demand as remaining weak, with the notable exception of auto loans, while business loans for capital equipment improved slightly. Several bankers stated that credit standards remained tight for consumer loans, but some easing had occurred in order to capture attractive commercial loan applications. A commercial banker said that uncertainty about whether a successful SBA program would be renewed had curtailed his ability to get approval of several viable small business loans.

Real Estate. Residential real estate activity improved since our last report. A Realtor in the Richmond area said that closings were up double digits over last year and prices were rising slightly. Properties below the $200,000 range, in particular, were selling more quickly. However, an agent in the D.C. area indicated that housing sales in the $800,000-plus range were rising relatively quickly, adding that the lowest inventory for housing in eight years was pushing up prices. A Realtor in the Fredericksburg area reported that her agency was extremely busy for this time of year and indicated that sales were up forty percent over last year; she expected the stronger market to continue. Moreover, a

Maryland contact mentioned that foreclosures in central Maryland had fallen thirty percent from the previous quarter, which bolstered housing prices. In contrast, a report described the housing market in North Carolina as mostly unchanged, with the exception of an improvement in the Research Triangle. Also, a source stated that there had been a slowdown in housing in the Hagerstown area.

Commercial real estate and construction activity remained mixed since our last assessment. A Realtor in North Carolina stated that both leasing and sales activity had slowed since June, with some tenants switching to shorter leases. Another agent reported moderate increases in office leasing, especially in suburban locations. Several contacts in Virginia and West Virginia noted increased interest from clients but few closings. A Virginia Realtor said that retail leasing had improved, but it was “still a bumpy road” and that leases were “taking forever to close.” Both leasing and construction-related activity in the industrial sector was sluggish. Several contractors reported that government-related projects continued to weaken or decline. New private sector projects also started to decline in recent weeks. A large contractor in Maryland expected that few new projects would emerge until after the election. However, a banker noted that small developers were joining together to buy and renovate low-priced B and C Class properties, in anticipation of an improved real estate environment next year.

Labor Markets. We received mixed signals on labor market activity over the last few weeks. A source from West Virginia reported that the state experienced several major layoffs related to mine closings and bankruptcies. A contact in Hagerstown said that the local labor market continued to recover, but at a slow pace, and that the area would lose a major manufacturer later this year. Moreover, an auto supplier in Virginia stated that his firm had frozen hiring and would reduce staff through attrition. In contrast, several employment agencies cited an increase in demand for workers, particularly among goods-producing industries. At a North Carolina staffing agency specializing in finance, companies were actively hiring staff and senior level accounting and finance professionals. In the retail sector, an industry representative mentioned that many small retailers expected to add hours for permanent employees during the upcoming holidays, rather than hire seasonal workers. According to our recent surveys, average wages in both the manufacturing and services sectors were growing at a slightly quicker pace than a month ago.

Tourism. Hoteliers, restaurateurs, and other tourism contacts reported stable but solid leisure business going into the autumn season. In addition, their outlook was upbeat for late fall and early winter. An hotelier in western Virginia stated that business was solid, with a trend toward more last-minute leisure bookings. A tourism contact in Washington, D.C. reported seeing "tour buses galore" and crowds on the mall. Tourist activity on the outer banks of North Carolina was steady, and good attendance was expected for upcoming music and food festivals. Hotel and rental rates were not being discounted, although incentives were offered for time slots that were difficult to fill. In contrast, hotels that depend heavily on government-sponsored bookings reported a significant drop in business.

SIXTH DISTRICT – ATLANTA

Summary. Sixth District business contacts described economic activity as expanding slowly in September, and most expect little change in the near term.

Most retailers cited slow sales growth while auto dealers continued to experience strong results. Hospitality reports remained largely positive, with the exception of cruise-lines. Residential brokers and builders signaled that housing conditions continued to improve in many parts of the District as sales and prices of new and existing homes slightly increased compared with a year ago. Commercial development continued to improve, led by multifamily construction. Manufacturers indicated that new orders had softened while production levels only mildly increased. Bankers saw improvements in demand for overall loans, particularly those for housing purchases and refinances. Payrolls expanded modestly on net, and firms noted some deceleration in input prices, while wages remained relatively unchanged.

Consumer Spending and Tourism. Most District merchants reported that sales growth remained slow in September. Discount retail operations outperformed traditional department stores. Most retailers projected continued soft growth in sales through the end of 2012. Contacts in the auto industry reported that strong sales levels were maintained in September.

Leisure and business travel contacts continued to report strong activity and an optimistic outlook for the remainder of the year. Occupancy and room rates as well as convention bookings were solid. While there has been some drop in traffic from Europe, this was largely offset by strong visitor numbers from Canada and Latin America. Cruise-line bookings and onboard spending remained below expectations, but the industry anticipates some improvement next year.

Real Estate and Construction. District residential brokers indicated that recent existing home sales were up slightly compared with year-earlier levels. Buyer traffic also remained ahead of year-ago levels. Brokers again noted declining inventories, which continued to put upward pressure on home prices in many markets. Contacts anticipate modest home price gains over the next year; however, it is expected that neighborhoods hard hit by foreclosures will continue to experience home price weakness for some time. The short-term outlook for home sales remained positive overall, with the majority of contacts anticipating modest gains.

Reports from District homebuilders remained positive, as well. Builders indicated that recent new home sales and construction activity were up slightly from year-earlier levels and new home inventories remained below year-earlier levels. Construction remained mostly limited to more desirable locations, such as those in highly regarded school districts. Southeastern builders also reported that finished lot inventories varied across the region, but most anticipate a decline in those inventories over the next six months. Many indicated that financing terms remain prohibitive for acquisition and development. New home prices were slightly up compared with a year earlier. Homebuilders also witnessed stronger buyer traffic. The outlook for construction activity and new home sales remained positive.

Commercial contractors indicated that the pace of construction continued to expand and backlogs were slightly up from earlier in the year. Apartment development continued to dominate the District's commercial real estate market. Multifamily rent growth remained positive but has slowed somewhat in recent months. Contacts indicated that the District's office and industrial markets continued to make small improvements, while the retail sector was described as sluggish. Many contractors reported that clients remain hesitant to move ahead on new projects. However, most anticipate that construction activity will be flat to slightly up in 2013 compared with 2012.

Manufacturing and Transportation. While noting that new orders continued to slow, manufacturing contacts reported mild increases in production, employment, and finished inventory levels in September. Regional auto and auto parts producers, as well as firms that supply materials to the energy exploration and extraction sector, continued to report strong levels of production, but most other durables manufacturers noted a slight deceleration in output. Nondurables output, with the exception of food and chemicals, remained soft.

A Southeast port contact reported record-setting cargo volumes in fiscal year 2012, with increases across all categories. Despite the underlying increase in demand tied to replacement of aging truck fleets and the benefits of increased fuel-efficiency, new orders for heavy-duty trucks have stalled recently. Rail contacts reported that lumber shipments have increased. Air cargo companies saw an increase in cargo volume tied to the launch of various smartphones and computer tablets, which favor shipment by air over other modalities.

Banking and Finance. Banking contacts reported an increase in demand for mortgage loans for both purchases and refinances, although some contacts noted fewer than half of the applications actually were approved. The improvement in demand for purchase loans was driven by activity in entry-level homes. Demand for auto loans remained strong. Business lending had increased slightly; however, contacts noted most of the increase was not organic loan growth but was primarily from customers switching from other lenders or credit cards.

Employment and Prices. Regional employment growth picked up slightly in September, but remained muted. Reports indicated that sectors related to energy, autos, and housing were experiencing most of the hiring activity. Reports also cited deepening ties between private employers, education representatives, and government officials in an effort to address training deficiencies for in-demand positions. The majority of contacts reported that stagnant demand is the major reason behind sluggish employment trends, although uncertainty related to fiscal policy continued to weigh on some firms' hiring plans.

The majority of businesses contacted reported relief for some input prices and little change in wage plans. Firms responding to our Business Inflation Expectations survey reported that unit costs were up 1.3 percent in September over the past year, which is 0.3 percentage points lower than the August reading. Looking forward, businesses' expectations for inflation also moderated somewhat. On average, firms expected unit costs to rise 1.7 percent over the next 12 months. Though that number was down from August, survey contacts noted that rising materials costs could be a source of moderate upward price pressure going forward. Along those lines, several manufacturing contacts indicated that some input prices have increased recently, causing concern of additional margin pressure.

Surveyed firms reported that sales levels were 7.6 percent below "normal" times, though assessments varied widely by the size of the firm. In particular, small and medium-sized businesses reported experiencing about twice as much slack as their larger counterparts, a finding that is consistent with anecdotal insights gathered from our business contacts.

Natural Resources and Agriculture. After brief, precautionary shut downs related to Hurricane Isaac, regional refiners fully restored operations with very little damage from the storm. Energy industry contacts continued to report that Gulf Coast refineries were undertaking investments to increase production capacity following refinery closures elsewhere in the country. Natural gas prices continued to experience downward price pressures. Contacts continued to note that inexpensive natural gas had prompted downstream manufacturers to relocate overseas operations to the U.S., prioritizing locations near refining operations.

Agriculture contacts said that the rise in some crop prices, resulting from the drought in the Midwest, had led to increased crop production in the Southeast where soil conditions were more favorable, but the overall rise in feed prices was putting pressure on livestock producers. Compared with the same time last year, prices paid to farmers for corn, rice, soybeans, beef, and broilers were up while cotton prices were down.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to expand in late August and early September, but again at a slow pace. However, contacts remained guardedly optimistic that conditions would improve; noting that at least some of the uncertainty surrounding the outlook was likely to be resolved following the November election. Growth in consumer spending was little changed, while business spending increased at a slower rate. Manufacturing activity edged lower, and growth in construction moderated. Credit conditions continued to improve gradually. Cost pressures increased some, due in large part to higher food and energy prices. The drought led to an earlier start than normal for the harvest, and corn and soybean prices moved down a bit.

Consumer spending. Growth in consumer spending was little changed in late August and September following a slight pick-up in the previous reporting period. Sales of back-to-school items were somewhat below retailers' expectations despite higher store traffic volumes. Contacts noted that the rise in gasoline prices had further deterred consumers from increasing discretionary spending. Retailers lowered their expectations for the holiday shopping season, although they still expect holiday sales to match last year's pace. Auto sales increased in August before moderating some in September. Consumers responded strongly to model year-end incentives, depleting inventories of 2012 models, and also benefitted from easing auto credit conditions.

Business spending. Business spending continued to increase slowly in late August and September. A number of contacts reported that firms were delaying hiring and capital expenditure decisions until they were more certain about the outlook for federal tax and spending policies. That said, some capital expenditures were proceeding as planned, particularly on software and equipment. Inventories were generally indicated to be at comfortable levels. Labor market conditions were weaker on balance. The District unemployment rate edged up and hiring remained selective. A recruiting firm indicated that overall demand for their services was effectively flat at last year's levels. Demand was greater in areas such as health care, engineering, accounting, information technology, and skilled manufacturing trades where firms are having difficulty finding qualified candidates. Several manufacturers reported stepping up training programs and increasing pay to meet staffing needs in a number of skilled trades.

Construction/real estate. Growth in construction moderated some from the previous reporting period. Homebuilders indicated that new single-family construction continued to rise at a slow but steady pace, while multi-family construction was stronger by comparison. Loan standards for residential development remained tight, and many homebuyers also continued to face tight lending standards. Home prices edged higher, despite a rise in short sales. Nonresidential construction increased at a slower rate. Contacts indicated that new projects were progressing at a reduced pace; some also suggested that many firms were putting off investment decisions until after the November election. Elevated vacancy rates remained a drag on new commercial construction, and contacts noted that bank lending for investment properties continued to be limited.

Manufacturing. Manufacturing production edged lower in late August and September. Contacts reported that new orders had slowed considerably from earlier in the year and that order backlogs were coming down. Nonetheless, a number of contacts also indicated that quoting activity for next year had picked up, suggesting to them that the recent slowdown may be a pause due to the upcoming election and uncertain fiscal situation. Although the level of activity remained strong, demand for heavy equipment softened over the reporting period, largely reflecting further declines in the mining sector and a slower expansion of rental fleets. Exporters generally noted weaker demand outside of North America, particularly from Europe and Asia. Capacity utilization in the steel industry was steady, while steel service center inventories increased slightly. In contrast, the auto industry continued to be a source of strength, and manufacturers of building materials reported that activity had picked up with the recent improvement in the housing sector.

Banking/finance. Credit conditions continued to improve over the reporting period, with both credit spreads and market volatility decreasing. Banking contacts reported continued weak demand for business loans. While loan pricing was roughly unchanged, contacts cited greater demand for more flexible structures and longer financing terms. Standards continued to ease on C&I loans, although conventional financing remained difficult to obtain for many small businesses. Asset quality improved further, surpassing the expectations of some contacts. An exception was agricultural lending, particularly the livestock sector, where the impact of the drought on feed costs is putting stress on operators' balance sheets. Consumer loan demand was again limited with moderate increases in auto lending and mortgage refinancing, as auto loan standards continued to ease and mortgage rates moved lower.

Prices/costs. Cost pressures increased some in late August and September, primarily due to a rise in food and energy prices. Contacts also reported increases in the prices for construction materials like lumber and drywall, while most metals prices were steady. Wholesale food and energy price pressures rose, and retail contacts noted an increase in pass-through to consumers.

Wage pressures remained moderate, although some upward pressure on wages for high skilled positions was cited. A few contacts also reported upward pressure on healthcare costs.

Agriculture. The corn and soybean harvest began a few weeks earlier than normal across the District, as plants were dry due to the drought. In some areas, late rains helped produce higher-than-anticipated yields, but these made only a small dent in the large drought-related losses. Crop quality also was an issue in parts of the District. The drop in crop volume hurt grain elevators relatively more than crop farmers, as payments from crop insurance and sales at high prices offset much of the loss in farm income from the drought. However, given insurers' limited processing capacity and the large number of claims, already existing delays in crop insurance payments are likely to get worse. Corn and soybean prices eased down from their peaks, providing a bit of relief for livestock producers, though most operations remained unprofitable. Milk and cattle prices moved higher, while hog prices fell. Many hog facilities are operating below capacity, pointing to future reductions in supplies of pork.

Eighth District - St. Louis

Summary

Economic activity in the Eighth District has expanded at a moderate pace since our previous survey. Recent reports of planned activity from manufacturing and services contacts have been positive. Residential real estate market conditions have continued to improve moderately, while commercial and industrial real estate market conditions have continued to be mixed. Overall lending activity at a sample of small and mid-sized District banks increased slightly from mid-June to early September. Agricultural conditions in the District have generally improved since our previous report.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturers reported plans to hire new employees, open new plants, or expand operations, while fewer manufacturers reported plans to lay off workers or close plants. Firms in poultry processing, furniture, commercial printing, boat, conveyor equipment, HVAC equipment, and industrial gas manufacturing plan to hire new workers, open new facilities, or expand current operations. In contrast, firms that manufacture iron and steel products, mining equipment, and food products plan to lay off workers or close existing facilities.

Reports of planned activity in the District's service sector have been positive since our previous report. Firms in business support, distribution, healthcare technology, and personal care reported plans to hire new workers or expand operations. A transportation services firm also announced large-scale hiring plans for seasonal employees recently. In contrast, a financial services firm announced plans to relocate workers to a new location outside the District. Lastly, auto dealers in certain parts of the District reported weak hybrid vehicle sales.

Real Estate and Construction

Home sales increased throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2011, August 2012 year-to-date home sales were up 15 percent in Louisville, 6 percent in Little Rock, 11 percent in Memphis, and 17 percent in St. Louis. Residential construction increased in the majority of the District. August 2012 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2011. Permits increased 41 percent in Louisville, 27 percent in Little Rock, 39 percent in Memphis, and 17 percent in St. Louis.

Commercial and industrial real estate conditions were mixed throughout most of the District. A contact reported that apartment occupancy rates in northwest Arkansas remained high in Rogers, Bentonville, Fayetteville, and Springdale and strong multi-family real estate activity is expected in the second half of 2012. A contact in Louisville reported that office leasing activity declined in the central business district, while it remained strong in the suburban area. A contact in Memphis reported that industrial real estate activity has improved. Commercial and industrial construction activity improved throughout most of the District. A contact in Little Rock reported several new office building construction projects in the Fayetteville metropolitan area. A contact in Louisville reported that with demand for multi-family units remaining strong, plans for apartment construction continued to increase. A contact reported new mixed-use development plans in the Memphis metropolitan area.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks increased 1.4 percent from mid-June to early September. Real estate lending, which accounts for 73.3 percent of total loans, increased 0.2 percent. Commercial and industrial loans, accounting for 15.8

percent of total loans, increased 1 percent. Loans to individuals, accounting for 4.7 percent of total loans, increased 2.5 percent. All other loans, accounting for 6.2 percent of total loans, increased 16.4 percent. During this period, total deposits at these banks increased 0.2 percent.

Agriculture and Natural Resources

The condition of pastureland in the Eighth District has improved significantly from early August to late September. Excluding Mississippi, where 97 percent of pastureland was already rated as fair or better, the fraction of pastureland in fair or better condition has increased by at least 20 percentage points in all District states. The share of crops in fair or better condition has similarly increased across the District, although the condition of the corn crop remains relatively unchanged. Harvest completion rates have outpaced their 5-year averages for almost all crops in all District states. In particular, harvest completion rates for corn and rice are on average 30 percentage points ahead of their 5-year averages. Total year-to-date coal production in the states comprising the District, with the exception of eastern Kentucky, was 9 percent higher through the end of August than it was in the first eight months of 2011. August production, however, was 6.8 percent lower than in August 2011.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy expanded modestly since the last report. Increased activity was noted in construction and real estate, consumer spending, tourism, and professional services. Energy and mining were steady at high levels, while agriculture varied widely, with crop farmers generally in better condition than animal producers. Meanwhile, activity slowed slightly in the manufacturing sector. Labor markets tightened somewhat. Overall wage increases remained subdued, although stronger increases were reported in some areas. Price increases were generally modest.

Consumer Spending and Tourism

Consumer spending increased moderately. Same-store sales at a Minnesota-based retailer increased 4 percent in August compared with a year ago. A Minneapolis area mall manger reported that sales over the past two months were up about 4 percent compared with a year earlier, while another Minneapolis mall reported that while traffic was flat, sales were up somewhat. In North Dakota, a mall manager reported that sales in August and September were up more than 5 percent from last year. Recent sales increased at a Minnesota-based women's apparel store. A domestic auto dealer reported strong sales activity near the end of September and solid commercial fleet sales. A representative of an auto dealers association in North Dakota reported strong vehicle sales across the state.

Tourism activity was above year-ago levels. In response to an end-of-summer survey of lodging and camping businesses by Minnesota's tourism office, 46 percent of businesses reported higher occupancy than last summer, while 31 percent reported that occupancy was the same. In addition, the number of visitors to the Minnesota State Fair fell just short of a record. Tourism officials in Montana reported strong occupancy levels during the summer and expect this year to finish ahead of last year.

Construction and Real Estate

Commercial construction activity increased since the last report. The value of commercial building permits issued in August more than quadrupled from the same period last year in both the Sioux Falls, S.D., and Billings, Mont., areas. A Minneapolis area construction contact noted interest in building a regional warehouse, while a research and development building was also planned. Residential construction increased from a year ago. The value of residential building permits in the Sioux Falls area in August was up 11 percent from the same period last year. The number of residential permits more than doubled in the Minneapolis-St. Paul area in August compared with a year ago. The value of residential permits issued in August more than doubled in Billings.

Commercial real estate markets expanded at a slow pace. Vacancy rates for Minneapolis office, industrial and retail properties declined slightly since the last report, according to local real estate professionals. Residential real estate market activity was brisk. Home sales in mid-September were up 18 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 30 percent. In the Sioux Falls area, August home sales were up 44 percent, inventory was down 14 percent and the median sales price rose 5 percent relative to a year earlier.

Services

Activity at professional business services firms grew slightly since the last report. According to an architecture firm, demand for services picked up recently. An information technology consulting company noted a recent uptick in the number of projects. A data center opened in northern Minnesota. An environmental consulting firm noticed increased activity primarily due to oil and gas pipeline analysis. A logistics consulting firm noted that recent freight volumes are about the same as last year.

Manufacturing

The manufacturing sector weakened slightly since the last report. A survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity decreased in Minnesota and South Dakota in August for the second month in a row, though the rate of contraction was not as sharp as in July. Activity increased in North Dakota, but at a slower pace than the previous month. In contrast, an agricultural equipment maker announced that it will open operations in Minnesota, and a machining firm expanded operations in Michigan’s Upper Peninsula.

Energy and Mining

Activity in the energy and mining sectors remained strong. Oil and gas exploration decreased slightly in North Dakota and increased in Montana; however, North Dakota oil production hit a new record. A large railroad increased its capacity for carrying crude oil out of North Dakota’s Williston Basin. Several large transmission-line projects were under way around the District. In contrast, another Minnesota ethanol plant shut down, and a North Dakota wind-turbine producer cut production, citing reductions in demand and uncertainty over the expiration of a federal tax credit. District iron ore mines continued operating at near capacity. Sand mines saw increased demand from oil and gas producers.

Agriculture

Agriculture was mixed, as crop farmers saw strong prices but widely varying yields, while animal producers saw tighter profit margins. Harvests were well ahead of schedule for crops around the region, thanks to hot and dry conditions late in the summer. District sugar beet producers were expecting a record harvest. The condition of the corn and soybean crops remained much better in Minnesota and North Dakota than in core corn belt states. However, portions of Wisconsin and South Dakota were hit much harder by drought. In addition, meat and dairy producers struggled with higher feed costs. Prices received by farmers increased for most agricultural outputs in September compared with a year earlier; the primary exceptions were milk and hogs, which saw price decreases.

Employment, Wages and Prices

Labor markets tightened modestly. According to a survey by an employment services firm, 20 percent of respondents in Minneapolis-St. Paul expect to increase staffing levels during the fourth quarter, while 6 percent expect to decrease staff. A year ago, 12 percent anticipated increases, while 11 percent expected decreases. A recent Minnesota Chamber of Commerce survey showed that only 49 percent of companies responding said that the state has enough skilled workers in their respective industries. In Minnesota, a foreign information technology consulting firm plans to add 300 workers and a telecommunications company recently announced that it will add 150 call-center employees. In contrast, a North Dakota wind turbine manufacturer announced that it will lay off 300 workers. A hardboard plant in Minnesota closed, affecting 140 workers, and a medical devices company laid off 80 of its Minnesota workers as part of a reorganization plan.

Overall wage increases remained subdued, although stronger increases were reported in some areas. For example, a health care system recently offered substantial bonuses to recruit registered nurses in eastern North Dakota.

Price increases were generally modest, with some exceptions noted. Late September Minnesota gasoline prices increased almost 20 cents per gallon since late August. Metals prices increased somewhat since the last report, as well as some lumber prices.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded at slightly slower pace in late August and September compared to earlier in the summer. Consumer spending slowed somewhat, manufacturing growth was more subdued, and transportation firms reported flat conditions. Growth in commercial real estate activity slowed marginally, but remained on a positive trend. Residential sales and construction continued to grow at a solid pace. Drought conditions hurt agricultural production, though farm incomes were generally healthy due to higher crop prices and insurance programs. Energy activity remained solid, and bankers noted steady loan demand, better loan quality, and increased deposits. Prices rose moderately, but wage pressures were contained outside of a few skilled positions.

Consumer Spending. Consumer spending slowed modestly and contacts were less optimistic about future sales in the months ahead. Retail sales declined slightly from the previous survey, but remained above year-ago levels. Several contacts cited political uncertainty and rising gasoline prices as key reasons for the slowdown. Expectations for future sales also eased somewhat, while store inventories were largely unchanged. Growth in auto sales was less robust than previous months, and expectations for future sales weakened slightly. However, several auto dealers in Oklahoma noted higher sales due to strong energy activity in their areas. Contacts said sales were strongest for mid-sized family sedans and crossover SUVs, while sales of full-size trucks and SUVs remained weak. Auto inventories increased and most dealers anticipated levels to increase further. Restaurant sales slowed markedly and expectations also fell. Some contacts noted higher food costs, rising gasoline prices, and overall consumer uncertainty as reasons for the decline. Tourist activity edged lower, slightly more than the usual seasonal slowing, and most contacts expected further decreases in the months ahead.

Manufacturing and Other Business Activity. Manufacturing activity in the Tenth District continued to expand, although at a slower pace than in previous months. Factory orders and shipments declined, while future hiring plans generally remained positive. Machinery production fell considerably since the last survey, with some contacts citing European weakness and political uncertainty as key reasons for the slowdown. In contrast, metals and transportation production remained solid. Manufacturers’ capital spending plans moderated somewhat, but firms still indicated overall plans for expansion. Transportation activity was flat, although several firms reported higher shipments of perishable food products and more firms reported an increase in capital spending plans. Expectations for future transportation activity eased slightly from the previous survey. Sales growth among high-tech firms remained somewhat sluggish, with several firms citing political uncertainty as a contributing factor. However, expectations for future activity were more positive, and capital spending plans were generally favorable.

Real Estate and Construction. Solid growth in residential real estate activity continued in late August and September, while expansion of commercial real estate activity slowed somewhat. Housing starts edged higher, and limited availability of workers was reported as an issue for some builders in states with low unemployment rates. Expectations for future homebuilding remained favorable, and building materials were generally available. Despite the improvement in housing starts, sales at construction supply firms were considerably slower, and many businesses were pessimistic about future sales. Home sales continued to grow at a solid pace, though slightly slower than in the previous survey. Residential realtors said mid-range homes sold well, while the luxury home market was still exceedingly slow. Several contacts noted a rise in sales to investors, as higher rental rates have increased profit potential. Expectations for future home sales flattened somewhat, but prices were generally rising and expected to increase further. Mortgage lending activity eased slightly, and one contact noted continued tightening of underwriting guidelines. Growth in commercial real estate activity slowed marginally from the previous survey, but was generally solid overall and most contacts remained optimistic about future months. Vacancy rates continued to fall, but absorption rates flattened out. Office prices and rents were also flat from the previous survey, although some increases were anticipated in coming months.

Banking. In the recent survey period, bankers generally reported steady to stronger loan demand, improved loan quality, and increased deposits. Overall loan demand was favorable as most respondents reported stable demand for commercial real estate and consumer installment loans, while demand for residential real estate and commercial and industrial loans edged slightly higher. Credit standards remained largely unchanged in all major loan categories. The majority of bankers reported improved loan quality compared to a year ago, and nearly all banks expected the outlook for loan quality over the next six months to be the same or better. More institutions reported stronger deposit volume than in the previous survey.

Energy. Energy activity remained solid in late August and September. Contacts continued to report reduced activity related to natural gas exploration, but oil rig counts remained strong and were expected to stay relatively stable. Natural gas prices remained very low, although several contacts anticipated a slight increase in prices due to lower levels of exploration and winter supply concerns. Crude oil prices climbed higher from the previous survey period, which several contacts attributed to continued Middle East conflict concerns. One producer noted an increase in service activity particularly in Wyoming and North Dakota, but contacts reported minimal shortages in equipment and labor.

Agriculture. Drought continued to hurt agricultural conditions across the District. Dry, hot weather accelerated crop maturity, prompting an early corn harvest with below-average yields. The soybean crop was rated in mostly poor condition as harvest began. Winter wheat planting was progressing normally, but low soil moisture could delay emergence. Corn and soybean prices fell seasonally, but concerns about global production underpinned wheat prices. Despite drought conditions, high crop prices and crop insurance payments were expected to boost farm income and more than offset lower livestock profits due to higher feed costs. District bankers indicated ample funds were available for qualified borrowers to meet cash flow needs and finance carry-over debt. Demand for farm loans remained modest amidst a pull-back in capital spending. Farmland values rose further and were expected to remain at high levels.

Wages and Prices. The majority of prices continued to rise moderately with further increases expected, but wage pressures were mostly contained outside of a few skilled positions. Retail prices edged higher, and were anticipated to rise further in coming months. Prices of manufacturing materials continued to increase, although fewer firms planned on raising selling prices. Construction materials prices also moved higher, particularly for oil-related products such as shingles. Transportation firms reported higher input prices, and increased food costs continued to impact profit margins and selling prices for restaurants. Many contacts noted that rising gasoline prices have increased input costs and cut sales volumes. Wage pressures were still generally contained in most industries, although some firms reported continued difficulties in obtaining skilled labor, such as truck drivers, construction workers, software programmers, and engineers.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. Energy activity remained strong, and construction and real estate activity picked up as housing demand strengthened. Demand for business services improved slightly, and transportation services activity continued to expand. Reports on manufacturing activity were mixed. Growth in retail and auto sales slowed over the reporting period, but Eleventh District sales continued to outperform the national average, according to respondents. Lenders noted steady loan demand. Agricultural conditions improved slightly. Price and wage pressures were modest over the reporting period, and employment levels continued to edge up. Many respondents across industries said continued uncertainty about upcoming elections was clouding outlooks.

Prices Most reporting firms said prices were steady. Several contacts in the transportation services industry noted higher diesel prices led to higher costs. Shipping firms expect higher ground and air prices as a result. Airline industry contacts noted that business travelers were very price sensitive and soft demand was keeping a lid on fares. Food and cattle producers noted price increases due to continued commodity price pressures.

The price of WTI rose during the reporting period, reaching nearly $99 per barrel. Natural gas prices remained depressed. Retail and on-highway prices of both gasoline and diesel ended the reporting period slightly higher. Contacts noted that Hurricane Isaac had little impact on energy pricing. The prices of petrochemical products were flat to slightly up over the past six weeks.

Labor Market Employment held steady or increased at most firms. Shortages of truck drivers continued to be reported in several industries. Accounting and legal firms noted increased hiring and said compensation has risen this year. Staffing firms reported additional hiring in response to high levels of demand, but there were no reports of pressures on wages or salaries. Skill shortages remained an issue for energy services firms, although some large firms noted slight easing. Retailers said hiring increased since the last report and expected holiday hiring to be stronger than last year.

Manufacturing Overall demand for construction-related products was mixed over the last six weeks. Producers of stone, clay, glass and lumber reported steady to slightly increased demand, with particular strength in residential activity. Fabricated metals contacts said growth in demand had slowed. Reports from primary metals contacts were mixed, although a large electrical wire manufacturer said demand in August was stronger than in any other month this year. Across the board, contacts noted uncertainty in their outlooks due to the upcoming election.

High-tech manufacturers said sales growth slowed modestly over the reporting period. Most contacts attributed the slowdown to weakened international demand and lower forecasts for world economic growth. Weaker demand was noted across a broad range of products, including industrial, computers and communications infrastructure. Contacts expect demand to remain weak through year-end.

Demand for paper products increased in line with normal seasonal patterns. Food producers noted increased business over the last thirty days due to a slight pickup in consumer demand. Reports from most transportation equipment manufacturers were mixed; aviation manufacturing orders were down slightly while other firms noted flat to increased activity.

Petrochemicals producers said demand remained mostly flat since the last report. Ethylene production fell to a three-year low as plants went offline for maintenance and improvement. Ethylene and polyethylene margins remained relatively stable and largely healthy, although exports softened. Gulf Coast refiners said operating rates remained over 90 percent, and strong export demand was preventing a buildup in domestic inventories. Refinery margins rose to the highest level since 2008 in August and have since remained very healthy.

Retail Sales Retail sales growth softened over the reporting period, and sales are up slightly year-over-year. Sales in the Eleventh District continue to outperform the nation, according to two national retailers. Contacts noted that holiday hiring has begun or will begin soon, and hours worked are up from the previous report. Commodity input costs are easing, but the drought has caused prices for grains and feedstock to rise. The outlook for the rest of the retail quarter, which ends in October, is mixed but contacts are cautiously optimistic for the fourth quarter.

Automobile sales were flat over the past six weeks but are up year-over-year. Contacts expect a modest increase in selling prices with the 2013 models due out soon. Outlooks are generally uncertain because of the election and consumer confidence, but fourth quarter is expected to be better year-over-year.

Services Staffing firms said demand growth slowed slightly but is expected to turn around in coming weeks. Demand from the steel industry was very strong, with contracts extending through 2014. Engineering and mortgage processor jobs were in high demand, while the need for oil workers has “become less crazy.” There were fewer requests for workers in the plastics industry. Outlooks remained fairly optimistic.

Accounting firms noted a slight increase in activity. Demand for insurance and audit services experienced positive growth, while that for advisory and tax services was flat to slightly down. Demand for energy-related services remained strong. Legal contacts said overall demand for services was not much changed since the last report. However, activity related to energy, labor-services and real estate had increased. Outlooks were cautiously optimistic.

Reports from transportation service firms were mostly positive. Railroad contacts said volumes picked up since the last report. Motor vehicle shipments continue to be strong, and contacts noted healthy volumes of some construction-related products, including lumber and wood and crushed stone. Container volumes continued to increase and shipping firms said small parcel volume growth had recently accelerated, led by improvements in wholesale and retail trade. Air cargo volumes continued to decline due to weakness in the international sector.

Airlines noted softer passenger demand since the last report, citing weakness in Europe and Asia. Respondents were cautious in their outlooks, and slightly more pessimistic than six weeks ago.

Construction and Real Estate Single-family housing activity continued to increase at a good pace over the past six weeks. Contacts said new and existing home sales outpaced expectations, and new home construction activity increased. Inventories of both new and existing homes remained tight, leading to price gains. Apartment construction picked up since the last report, and outlooks for the multifamily sector remain quite optimistic. Leasing activity in the office and industrial real estate sectors remained steady at a good pace. While commercial construction remains at low levels, contacts expect activity to improve.

Financial Services Overall, financial firms reported flat loan demand. Auto loan demand, particularly for new autos, was a bright spot, and energy-related lending remained strong. Business lending and commercial real estate lending were weak. Loan pricing remained very competitive and has squeezed profit margins. Loan quality continued to improve as delinquency rates trended down and new loans are granted to more creditworthy customers. Deposits kept growing even as rates remained very low. Outlooks were mixed, and contacts said fiscal worries were negatively impacting loan demand.

Energy Respondents at energy-related firms said business remained strong with long lead times, although the District active rig count declined modestly over the reporting period. Producers concentrated their production on oil, as the prices of both natural gas and natural gas liquids remain very low. Outlooks were essentially flat. Activity was robust but there is little hope for further improvement through the end of the year.

Agriculture The District remained largely in drought, although scattered rainfall improved soil moisture conditions in several areas. Crops were mostly in fair to good shape. Production is expected to be better than last year—when the drought was much more severe in the Eleventh District—but below average because of ongoing dry conditions. Grain prices remained high due to the Midwest drought, adversely affecting Texas' large livestock sector as feed costs reached record highs.

TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District grew at a modest pace during the reporting period of mid-August through late-September. Upward price pressures remained limited overall, and upward wage pressures remained muted. Sales of retail items rose slightly, and demand for most business and consumer services gained further on net. District manufacturing activity edged up. Agricultural output was mostly steady, while activity continued to trend up for providers of energy resources. Home demand in the District showed continued signs of improvement, and demand for commercial real estate was mainly stable. Financial institutions reported overall loan demand was unchanged or up somewhat on balance.

Wages and Prices

Price inflation remained quite limited for most final goods and services during the reporting period. Prices increased overall for some energy items including electricity, crude oil, and retail gasoline. Natural gas prices remained near historically low levels. Contacts noted high feed prices are passing through to grocery stores and restaurants. Contacts in the tech sector reported slightly lower prices of some technology-related products. For most products and services, vigorous competition among firms and cost-conscious purchasing behavior by consumers continued to keep price inflation in check.

Contacts in most sectors reported very limited upward wage pressures. Moderate wage increases in the 2 to 3 percent range were noted for employees in some manufacturing sectors, although lower levels of staffing were also reported. Contacts continued to note wage gains for workers with specialized skills in the information technology sector. Some upward pressure on wages of skilled construction workers was noted, as well. For the remainder of 2012, most contacts reported limited hiring plans, suggesting that upward wage pressures will remain subdued.

Retail Trade and Services

Retail sales rose further overall. Contacts reported sales were a bit stronger relative to the prior reporting period. Discount chains and online retailers continued to outperform traditional department stores. At grocery stores, consumer spending was soft as shoppers continued to shift their purchasing decisions in favor of cheaper products. Contacts reported a strong pace for auto sales, significantly above the pace from the same period last year. Demand for used vehicles also remained robust.

Demand for most business and consumer services gained on net. Sales continued to grow for a wide variety of technology services, with expectations for further rapid growth in selected segments, such as cloud computing services. Demand for legal services was steady. For providers of health-care services, demand was largely stable. Demand picked up further for restaurants and other food-service providers. Some contacts in the District's travel and tourism sector reported improvement in conditions overall.

Manufacturing

District manufacturing activity edged up on balance during the reporting period of mid-August through late-September. Production activity remained at high levels for makers of commercial aircraft and parts. Manufacturers of wood products reported stronger than expected output and sales. New orders improved somewhat for manufacturers of semiconductors and other technology products. Demand for steel was mostly stable, albeit at low levels, while sales of processed scrap metal fell further, largely as a result of sustained weak demand abroad. For petroleum refiners, capacity utilization rates increased to the highest levels in years, as growing export sales offset relatively weak domestic demand for refined petroleum products.

Agriculture and Resource-related Industries

Agricultural activity was mostly stable, and extraction activity of natural resources used for energy production continued to expand. Contacts noted continued efforts by agricultural businesses to increase their productivity. Reports indicated that demand for cotton was strong. Higher grain and feed prices prompted District livestock producers to reduce herd sizes. Favorable weather conditions in some parts of the District helped stabilize production. Extraction activity for petroleum and natural gas remained at high levels or expanded a bit further on net.

Real Estate and Construction

Home demand in the District showed continued signs of improvement, while demand for commercial real estate was largely unchanged. Although still well below its historical average, the sales pace for new and existing homes picked up further in many areas. Contacts noted that pent-up demand may spur additional gains in coming months. Contacts reported a decrease in the inventory of available homes and a noticeable increase in construction activity. On the nonresidential side, contacts observed a reduction in commercial property vacancies in parts of the District.

Financial Institutions

District banking contacts reported that loan demand was unchanged or up somewhat compared with the prior reporting period. Some contacts reported that business loan demand inched up, although some of the new activity was for refinancing rather than expansion. Reports continued to highlight ample liquidity and stiff competition among lenders to provide credit to well-qualified business loan applicants. Contacts indicated that some borrowers received multiple offers to finance projects. Demand for consumer credit remained relatively strong, reflected primarily in high lending activity for automobile and home purchases.