

For use at 2:00 p.m., E.S.T.
Wednesday
January 15, 2014

Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

January 2014

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

January 2014

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 suggest economic activity continued to expand across most regions and sectors from late November through the end of the year. Nine Districts indicated the local economy was expanding at a moderate pace; among these, the Atlanta and Chicago Districts saw conditions improve compared with the previous reporting period. Boston and Philadelphia cited modest growth, while Kansas City reported the economy held steady in December. The economic outlook is positive in most Districts, with some reports citing expectations of “more of the same” and some expecting a pickup in growth.

Three-quarters of the Districts indicated that retail activity had increased since the last Beige Book report. The exceptions were St. Louis and Kansas City, where retail results were mixed, and the Richmond District, which cited a softening of retail sales. Richmond, Atlanta, and San Francisco noted strong auto sales. Districts mentioning nonfinancial services noted increased activity, except for Richmond, which cited “little change” in demand for non-retail services. All Districts reported year-over-year increases in manufacturing activity, although Kansas City noted slower growth in December.

Real estate markets generally continued to improve, according to District reports. Although a few Districts indicated home sales or residential construction in some areas had slowed or declined in recent months, most cited increased residential sales activity and construction as well as rising home prices. Reports on commercial real estate were also positive, with commercial construction generally increasing. Two-thirds of the Districts reported increases in commercial sales and leasing activity. According to District reports that mention banking, loan volumes have not changed substantially since the last reporting period. The eight Districts reporting on energy indicated that activity continued increasing; Cleveland and Atlanta cited robust growth in the energy sector. Reports on agriculture were also mostly positive.

Almost half the Districts reported that prices were stable; most other Districts noted small

* Prepared at the Federal Reserve Bank of Boston and based on information collected on or before January 6, 2014. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

increases in prices. Upward movements in wages were cited by 8 of the 12 Districts; the increases were described as small to moderate. Two-thirds of Districts noted increases in hiring; the Richmond District cited “numerous reports of strong labor demand.”

Consumer Spending and Tourism

Most Districts reported that retail spending was up, with activity described as modestly to moderately higher and holiday sales on plan or up a bit compared with 2012. However, Richmond noted a general slowdown in retail spending in recent weeks and the Kansas City District cited lower than expected holiday sales, which retailers there attributed to a shorter selling season and harsh weather conditions. Atlanta and San Francisco both noted that in-store sales were softer than online sales. Apparel sales were reportedly strong in Boston and Richmond, while Philadelphia, Cleveland, and Chicago indicated that cold-weather gear and winter items were selling well. Home furnishings, home improvement items, and/or furniture sold particularly well in the Boston, Philadelphia, Richmond, and San Francisco Districts. Demand for electronics was quite strong in the Cleveland and Minneapolis Districts, but San Francisco reported that electronics sales were weaker than in recent years. Kansas City and Dallas reported lagging sales for higher-priced big ticket items.

New York, Philadelphia, and Kansas City reported that automobile sales declined a bit in December; dealer contacts in the New York and Kansas City Districts reported higher inventory levels. Contacts in the Richmond, Atlanta, and San Francisco Districts said that automobile sales remain strong. Auto sales were mixed across areas within the Dallas District. Chicago and Minneapolis reported that light-vehicle sales increased; Cleveland observed that consumers continue to shift from smaller, more fuel-efficient cars to SUVs, crossovers, and light trucks. The 2014 outlook for vehicle sales is strong in the Philadelphia, Richmond, Cleveland, Kansas City, Dallas, and San Francisco Districts.

Reports on leisure and tourism spending were mixed across and within Districts. The Richmond District reported flat to slower bookings in recent weeks, except for resorts specializing in winter activities. San Francisco indicated that travel and tourism were down in Hawaii and remained somewhat weak in Las Vegas. Minneapolis reported that winter tourism activity was off to a solid start on account

of snowy weather. The Kansas City District indicated that tourism activity increased slightly since the last survey and increased modestly year-over-year. Hospitality contacts in the Atlanta District reported strong advance bookings and increases in occupancy rates, room rates, and revenue per room during the 2013 holiday season compared with year-earlier levels.

Nonfinancial Services

Districts mentioning consumer and business services reported that demand for nonfinancial services increased moderately since the previous Beige Book report. The Philadelphia, Minneapolis, and San Francisco Districts cited increased growth in information technology services; in the San Francisco District, this growth reflected strong demand for cloud services. The Boston District generally reported strengthened activity in the consulting and advertising industries with the exception of a firm that provides consulting services mostly to government agencies. Healthcare, internet technology, restaurant, telecommunications, and distribution firms expanded in the St. Louis District. Other reports of growth included legal and real estate services in the Dallas District and professional and business services in the Minneapolis District. By contrast, contacts in the Richmond District generally reported flat nonretail service growth, citing soft demand in the trucking and healthcare sectors. Demand for staffing services increased in the New York, Cleveland, Richmond, Chicago, and Dallas Districts, notably to serve the internet technology and engineering sectors.

Reports on transportation services were generally positive. Port activity remained strong in the Richmond District. Logistics contacts in the Atlanta District reported expansion in the movement of industrial and healthcare-related goods. Rail contacts noted year-over-year increases in intermodal traffic in the Atlanta District and heightened cargo volumes in the Dallas District. Similarly, freight transportation executives in the Cleveland District reported that shipping volume was in line with or exceeded expectations. One contact in the Philadelphia District observed “booming” growth for most modes of transportation. In contrast, transportation companies in the Kansas City District reported a slight decrease in business activity in recent weeks, while both intermodal cargo volumes and air cargo volumes fell in the Dallas District. Airline demand in the Dallas District was largely unchanged.

The outlook for 2014 is positive, with most Districts reporting that contacts expected activity in nonfinancial services sectors to continue to increase at a moderate to strong pace.

Manufacturing

Reports from the 12 Districts generally painted a picture of steady growth in manufacturing. All but one District reported both growing sales and an optimistic outlook; only Kansas City reported a decline in manufacturing production and shipments in December, although activity remained above year-earlier levels. A manufacturer in the Dallas District said that for the first time since before the recession, his firm had too many jobs to bid on. Employment was generally described as “steady” with few instances of rapid growth but very few reports of staff cuts or plant closings. Contacts in several Districts reported concerns about health care cost inflation. Capital spending was generally up and contacts anticipated further growth.

Three specific areas of strength in manufacturing were mentioned by multiple Districts: commercial aviation, autos, and construction materials. The Boston, Chicago, and San Francisco Districts reported exceptional strength in commercial aviation driven by record backlogs at major aircraft producers. The Richmond, Chicago, and San Francisco Districts said that the recovering housing market had led to increased demand for construction materials going all the way from raw materials like lumber to finished products like kitchen cabinets. Similarly, the Boston, Cleveland, Atlanta, and Chicago Districts reported above-average strength in the auto industry. Contacts in the Cleveland District said that most auto suppliers were at or near capacity; one respondent there estimated that 85 percent of auto suppliers should be adding capacity right now but indicated that many are reluctant to do so.

News about semiconductors was mixed, with contacts in the Boston District citing strong demand for semiconductor manufacturing equipment and contacts in the San Francisco District reporting gradually increasing sales of chips. Contacts in the Dallas District said that demand for memory chips was rising but demand for logic devices remained soft. The one area of weakness was manufacturers of defense-related products; contacts in the Cleveland District expressed hope that the recently enacted federal budget agreement would provide a boost to defense contractors this year and next.

Real Estate and Construction

Most Districts reported increases in home sales in the closing months of 2013 compared with last year, but the Atlanta, Cleveland, and Kansas City Districts indicated that year-over-year residential sales growth had slowed relative to earlier quarters in 2013. The Boston, Philadelphia, Minneapolis, and Dallas reports noted that at least some areas within those Districts saw home sales below year-earlier levels. Home selling prices continued their upward trend in the Boston, Atlanta, Chicago, Minneapolis, Kansas City, and San Francisco Districts, while remaining stable in the Cleveland and Richmond Districts; New York noted mixed changes in sale prices across the District. Residential construction saw slight to moderate increases in most Districts; by contrast, Dallas cited a slight decline, New York reported no change, and Cleveland cited strong growth. Notwithstanding its decrease in overall residential construction, the Dallas District noted elevated construction levels for multi-family units; the Atlanta, Cleveland, and Chicago Districts also cited strong multifamily construction. Reporting Districts indicated that residential real estate contacts remained optimistic looking forward, while voicing concerns about declining inventory and potential changes in the mortgage market. The Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts reported that contacts expected residential construction to pick up in the near term.

District reports on commercial real estate contained much good news, although performance within some Districts was uneven across locations and property types. Commercial leasing activity increased in the Atlanta, Chicago, St. Louis, Minneapolis, and San Francisco Districts, as well as in New York City and Long Island, and held roughly steady in the Boston, Philadelphia, Richmond, Kansas City, and Dallas Districts. Industrial leasing activity weakened in the New York District in the fourth quarter but improved in both the Richmond and St. Louis Districts. Office and other commercial vacancy rates were mixed across and within metropolitan areas and across property types. Commercial rents increased at least modestly on average in the Boston, Chicago, Kansas City, and Dallas Districts and held steady in the New York and Richmond Districts. Commercial real estate investment continued to strengthen across numerous Districts, with brisk sales activity in the Boston, Chicago, and Minneapolis Districts and rising

prices in those same Districts as well as in the Richmond and Kansas City Districts. Excepting the New York and Dallas Districts, which gave no information on recent construction, all other Districts reported increases in commercial construction activity in recent weeks. In the Boston and Richmond Districts, construction activity increased in the education and healthcare sectors. A significant number of commercial high-rise structures are being built (or planned) in the San Francisco District. Information concerning the commercial real estate outlook was largely positive where it was reported. Contacts in the Boston, Atlanta, and Kansas City Districts were optimistic that commercial real estate fundamentals would continue to improve at least slowly in 2014. The outlook for commercial construction activity was positive in the Philadelphia, Cleveland, Minneapolis, and Dallas Districts.

Banking and Financial Services

Among Districts reporting on banking, none noted substantial changes in loan volume. Philadelphia, Richmond, Atlanta, Chicago, Dallas, and San Francisco reported slight to moderate growth. The Cleveland, St. Louis, and Kansas City Districts reported no change, whereas New York cited a moderate decline in loan volume. In addition, while no Districts reported major changes in credit standards, Philadelphia, Chicago, and San Francisco cited instances where financial institutions relaxed their underwriting standards. Some contacts attributed this relaxation to increased competition in lending markets. Among reporting Districts, credit quality held steady or increased, with the New York District citing declines in delinquency rates for all lending categories.

Residential real estate loans declined in the New York, Cleveland, Atlanta, Chicago, and Kansas City Districts, mostly due to slowdowns in refinancing activity rather than in new purchase loan applications; in fact, the latter have slightly increased in some Districts. The St. Louis District reported no change in residential real estate loan volume.

Commercial real estate loans increased in the Cleveland District, remained steady in the New York and Kansas City Districts, and fell in the Philadelphia and St. Louis Districts. Business and industrial loan demand increased in the Richmond, Chicago, and San Francisco Districts while remaining stable in Cleveland and Kansas City and declining in the St. Louis District. The Cleveland, Richmond,

Chicago, and Dallas Districts reported increases in auto lending. Regarding demand deposits at financial institutions, deposit volumes increased in the Cleveland and Dallas Districts, remained stable in Kansas City, and decreased in the St. Louis District. Contacts in some Districts expressed concern about new banking regulations and their potential negative impact on lending and operating costs.

Agriculture and Natural Resources

Most Districts reporting on agriculture indicated that yields and growing conditions were generally strong and improving in late November and December; by exception, the Atlanta District observed mixed results and Minneapolis cited weaker farm conditions. Corn and soybean prices remained very low across the country, and the Chicago and Kansas City Districts reported that some farmers have been holding onto fall crop inventories rather than sell at current prices. Kansas City and Dallas reported that the winter wheat crop is in good shape due to moisture provided by winter storms, although storms slightly delayed the cotton harvest. The Kansas City, Dallas, and San Francisco Districts cited increased profitability in cattle production attributed to flat or rising cattle prices coupled with reduced feed costs and better pasture conditions. Builders in the San Francisco District reported that timber supplies were sufficient to meet rising demand.

District reports indicated continued strong energy demand and production. The Atlanta, Kansas City and Dallas Districts cited robust oil drilling activity both inland and offshore, despite rising costs to transport crude oil along the Gulf Coast; meanwhile exploration in the Gulf of Mexico has been bolstered by the completion of pipeline infrastructure projects. Coal production was slightly up in the St. Louis and Kansas City Districts but mixed in the Cleveland and Richmond Districts, as Appalachian producers struggled with low coal prices and regulation. Natural gas production was stable at a high level in the Cleveland District, up slightly in the Richmond and San Francisco Districts, and mixed in the Minneapolis District. Most Minneapolis District iron ore mines continued to operate near capacity; however an environmental impact report on a proposed copper-nickel mine has brought the future of the project into question. A judge's ruling brought a proposed \$250 million solar power project in Minnesota closer to development.

Wages and Prices

Most District reports indicated that wage and price pressures were contained and did not present major problems for local contacts. Prices were said to be generally stable in the Cleveland, Richmond, Atlanta, Minneapolis, and Kansas City Districts; they reportedly increased slightly in the Boston, Philadelphia, Chicago, and San Francisco Districts. New York and Dallas cited modest price increases; both mentioned that some service-sector firms plan to raise their selling prices in the near term. Most District reports indicated that cost pressures remained stable or increased only slightly. Manufacturers in a number of Districts reported that raw material prices were generally steady, with small increases in the prices of some metals. Kansas City cited an increase in the prices of some raw materials but not in the prices of finished products. Cleveland indicated that both input and finished products prices remained mostly unchanged.

The Cleveland and Atlanta Districts reported steady wages, with Atlanta noting that merit increases remained in the 1 to 3 percent range. The Boston, Philadelphia, Richmond, Chicago, Kansas City, and San Francisco Districts reported slight to modest increases in wages; among these, Richmond noted that average wages declined in the service sector but increased in manufacturing, while Chicago and Kansas City observed that wage pressures were lower compared with the previous reporting period. By contrast, Dallas noted a pickup in reports of pay increases and wage pressures, while Minneapolis indicated that labor markets were showing signs of tightening, and wage increases were moderate.

FIRST DISTRICT – BOSTON

The First District economy continues to expand modestly, according to business contacts. All but one retailer and most manufacturing and selected business services contacts cite sales or revenue increases in recent months. While existing home sales were below year-earlier levels in three of the six New England states, home prices continued to rise; at the same time, commercial real estate in the region maintains modest strength. Economic and health care consulting is the only sector citing significant net hiring. Most contacts indicate that price pressures are a non-issue. The outlook is generally positive.

Retail and Tourism

Retail respondents in this round report December year-over-year sales changes ranging from a low single-digit decrease to an increase of 10 percent. Two contacts ended their fiscal years on December 31 and cite preliminary tallies showing 2013 sales up 1.5 percent and 5.0 percent compared to 2012. The latter result exceeded earlier expectations of 2013 comp store sales increases of 1.7 percent to 3.0 percent over 2012; this contact attributes the better-than-expected performance to increasing consumer confidence observed since late August. Respondents say demand is strong across all apparel categories, home furnishings, and items related to home improvement. One contact reports that inventories were down significantly due to stronger-than-expected sales, while others report “good” inventory levels.

Retail contacts continue to cite steady prices and predict modest price increases for 2014 in the range of 1.25 percent to 2.0 percent. As noted in the previous round, respondents say consumer sentiment is improving based on a better outlook for the U.S. economy. One contact expects consumer spending in 2014 to be constrained by rising financing costs for mortgages and automobiles, given that wage increases remain modest at best.

Manufacturing and Related Services

Of the 11 firms contacted in this round, none reports falling sales and eight report increasing sales. Among the three firms reporting no change were a chemical firm for whom the flat demand was an improvement after falling sales and a publisher who cited falling demand for information from the financial services sector. Another firm, a manufacturer of storage devices for computers, said that they had lowered their earnings guidance for the fourth quarter. Many other contacts report relatively strong sales. A medical equipment manufacturer says that growth was strong not just for its new products, which typically grow at double-digit rates, but also for legacy products where there was pent-up replacement demand. A manufacturer of semiconductor equipment cites very strong demand, suggesting that the semiconductor industry is on an up-cycle after weakness in recent quarters.

Many contacts say they are attempting to reduce inventories. A manufacturer of medical equipment indicates that an exceptionally large backlog has allowed them to tailor production more precisely as well as to lower inventories. In general, respondents report little pricing pressure from either suppliers or customers. One exception is a frozen fish producer for whom prices of shrimp and haddock were “through the roof.” Another exception is a producer of parts for the commercial aircraft industry who said that Boeing has been putting exceptional pressure on its suppliers to lower prices, something

reported earlier by other firms in that industry. A publisher plans employment reductions, but most manufacturing contacts report modest hiring plans, in line with or below sales growth.

All but three contacted manufacturers cite increased capital expenditures. A firm that makes parts for commercial aircraft said it had revised up its capital expenditures by 20 percent in the fourth quarter after a similar-sized increase earlier in the year. A drug firm says uncertainty about the manufacturing R&D tax credit had negatively affected investment plans. Another drug company says capital expenditures are falling because of financial problems at their parent company in Japan.

The outlook is positive for all respondents except the publisher who is concerned that demand from the financial services industry will remain problematic in 2014.

Selected Business Services

Consulting and advertising contacts report a strong fourth quarter, consistent with a sustainably, but not rapidly, growing economy. The strongest business is driven by the healthcare industry, where demand has come from providers who need help preparing for and complying with the Affordable Care Act (ACA) and from providers and insurers who desire to use IT and analytics to improve efficiency. Economic consulting remains a strong growth industry and strategy consultants report mixed results, with the industry split between larger firms who have done very well and smaller firms whose revenues are flatter. Marketing contacts estimate industry-wide growth of 6 percent to 7 percent, driven by large corporate orders and a continued shift in demand towards higher-value items as companies have more to spend on marketing and branding. Overall, consulting and marketing contacts report that large corporate clients have cash and are increasingly willing to spend it. Finally, a government consultant reports a slight drop in revenues and a reduced backlog as the sequester and federal budget uncertainty continue to reduce agencies' ability to purchase his firm's services.

Contacts cite minimal cost increases, with the exception of a healthcare consulting contact whose regulatory compliance costs have skyrocketed due to fragmented state regulatory frameworks. Wages generally rose from zero to 3 percent, although several firms paid high bonuses because employees were busy. Firms raised the rates charged clients between zero and 4 percent, with firms facing stronger demand at the higher end of that range. Healthcare and economic consulting contacts report either rapid hiring (restrained by the difficulty of recruiting some skills) or a lull after recent rapid hiring. Strategy consultants, marketing contacts, and the government contractor cite flat employment. Firms say they are generally able to find qualified workers, with the exception of software engineers and IT personnel.

Contacts are positive about 2014 and expect their recent growth to either continue or increase. Contacts express minimal concern about macroeconomic factors, with the exception of a healthcare consultant who worries that persistent high unemployment will reduce healthcare utilization. Several contacts mention some concern that Congressional decisions may yet cause a crisis. Overall, respondents are bullish about the future and worry primarily about idiosyncratic firm-specific factors.

Commercial Real Estate

Commercial real estate leasing activity in the First District held roughly steady on average in December, while investment sales activity and construction remained robust or strengthened significantly,

according to contacts from across the region. In the Boston area, the Seaport District maintained a steady, “impressive” leasing pace, and office leasing activity picked up in some suburban areas. In Boston’s Financial District, however, the vacancy rate remains in the mid-teens, allowing modest rent increases that are, according to one contact, probably only large enough to cover rising costs. Investment sales activity saw a year-end burst of activity in Boston, with strong contributions from foreign investors, pushing capitalization rates and loan spreads to historically low levels and reigniting concerns that prices are too high relative to reasonable expectations of rent growth. In Rhode Island, commercial leasing inquiries picked up modestly in December, but new tenants are still scarce. Investment sales activity in the state remains brisk and new developments—driven by the education sector—are slated for downtown Providence. In Connecticut, investment sales activity remained strong in December and, while leasing activity held roughly steady, contacts say some large, vacant tracts of office space in greater Hartford may be effectively obsolete and unlettable.

Concerning construction activity, the pipeline of planned multifamily properties in greater Boston continued to dwindle, consistent with the perception among some contacts that the large number of units currently awaiting delivery may produce a glut. At the same time, planned construction in the education, health care, and life sciences sectors increased significantly in recent months, and the number of retail projects under construction in greater Boston appears to be rising, according to contacts. A regional lender closed a higher volume of commercial real estate loans in 2013 than in 2012, despite facing brisk competition and steady, intense pressure on interest rate spreads. The outlook among contacts for 2014 is generally optimistic. As reasons for optimism, one contact perceives that recent developments in Washington have reduced economic uncertainty, while some others say that macroeconomic “momentum” is on the rise. Downside risks include the upcoming costs to businesses of compliance with the ACA and the trend toward office downsizing on a space-per-person basis.

Residential Real Estate

Residential real estate markets in three New England states followed national trends, as October or November sales of single family homes and condominiums came in below year-earlier levels in Massachusetts, New Hampshire, and Connecticut; meanwhile home sales increased year-over-year in Maine, Rhode Island, and Vermont. As happened nationwide, the median sales price for single family homes rose in four of the six states. After many consecutive months of year-over-year sales increases, regional contacts attribute the recent sales declines to lower consumer confidence as a result of the most recent government shutdown, to a shift in sales toward earlier quarters due to lower interest rates at the time, and to a lack of inventory. One source notes, “[the market] lost a little steam in Q3 and continued at a slower pace in Q4.” A Massachusetts contact says limited inventory is constraining the market, as the available months of supply for single family homes and condominiums were 4.3 and 2.8 months respectively in November. “New listings are up, but we have been burning through inventory,” reports a source in Massachusetts. Despite the recent decline in unit sales, New England realtors agree that 2013 has been a good year overall and they remain optimistic about sales increases looking forward.

SECOND DISTRICT--NEW YORK

Economic growth in the Second District continued at a moderate pace in late 2013. Contacts note that cost pressures have increased somewhat, while selling prices are mixed but generally stable. A growing proportion of business contacts cross the District—in both manufacturing and other sectors—report increased activity. Labor market conditions have continued to improve modestly since the last report. General merchandise retailers indicate that holiday season sales were mixed but moderately strong, on balance, with steeper discounting than last year. New auto sales remained fairly robust in November but there were preliminary signs of slowing in December. Tourism activity showed some signs of slowing in late 2013. Home sales activity picked up in the final months of 2013, while commercial real estate markets have been mixed. Finally, banks in the District report declining loan demand—particularly for residential mortgages—as well as widespread reductions in delinquency rates.

Consumer Spending

Retailers report that sales were on or ahead of plan over the holiday season, with same-store sales steady to up moderately from a year earlier. Contacts at major malls in upstate New York report that business was strong in November but mixed in December; overall, holiday season sales were roughly on par with 2012 levels. More broadly, a trade association survey of retailers across New York State indicates that sales overall were up 1-3 percent from a year earlier and roughly on plan. Contacts report that sales were hampered by harsh weather in late November into early December across much of New York State. Contacts at major retail chains indicate that sales in the region were somewhat ahead of plan and up roughly 5 percent from comparable year-ago levels, though one notes that post-holiday sales were somewhat disappointing. There was a broad consensus among retail contacts that there was heavier promotion and deeper discounting than in the 2012 season.

Auto dealers in upstate New York report that new vehicle sales were quite strong in November but there were preliminary signs of weakening in December. There are scattered reports of inventory accumulation. Sales of used automobiles have continued to be soft since the last report. Wholesale and retail credit conditions for auto purchases continue to be characterized as favorable.

Tourism activity has been mixed in late 2013 with some signs of softening. Manhattan hotels report that revenues per room fell more than 10 percent from a year earlier in November—the first 12-month decline since the fall of 2012. Occupancy rates slipped by more than the seasonal norm in November, and room rates were down from a year earlier. While November 2012 hotel metrics were distorted by Superstorm Sandy—with some hotels shut down for part of the month but others accommodating displaced residents and rescue workers—this does not account for the more recent weakness. Broadway theatres, however, continue to report brisk business: attendance and revenues were fairly strong in December, running 4 and 10 percent, respectively, ahead of 2012 levels.

Consumer confidence has been mixed but generally a bit improved since the last report. The Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, Pa) shows confidence falling to a more than one-year low in November—following the government shutdown— but rebounding briskly in December. Based on Siena College's survey of New York State residents, confidence, which had fallen to a more than one year low in October, rebounded tepidly in November and held steady in December.

Construction and Real Estate

Residential real estate markets in the District have seen increased activity since the last report, while prices have been mixed. Contacts in western New York State report that sales activity has continued to be brisk, and inventories remain low; home prices have retreated from their recent highs, though there are still reports of multiple offers. Manhattan's co-op and condo market registered its strongest 4th quarter sales activity on record; one contact surmises that a spike in mortgage rates drove many fence-sitters to buy. Sales prices of Manhattan apartments were little

changed in the 4th quarter and up around 2 percent from a year earlier; price increases have been more pronounced in Queens and especially Brooklyn. Manhattan's rental market appears to have reached a plateau, with rents essentially flat and down slightly from a year earlier. A contact in New Jersey's housing industry describes the market as stable to improving gradually, with an overhang of distressed properties continuing to restrain prices of both new and existing homes.

Commercial real estate markets were mixed at year end. In Manhattan, the outer boroughs, and Long Island, office availability rates were steady to down slightly in the fourth quarter, ending 2013 at multi-year lows; Midtown Manhattan registered particularly brisk leasing activity in the 4th quarter. In Northern New Jersey, Westchester and Fairfield counties, and across upstate New York, office availability rates were little changed at or near multi-year highs. Asking rents for office space were generally steady across the District and little changed from a year earlier. Industrial markets weakened slightly in the fourth quarter of 2013: vacancy rates across the New York City metro area moved up from multi-year lows, though rates across upstate New York were little changed at elevated levels.

Other Business Activity

The labor market has continued to improve gradually since the last report. A major employment agency reports that hiring activity was more robust than usual in December, particularly in the finance industry, though it is difficult to gauge the labor market from December, which is typically a slow month, they are optimistic about prospects for early 2014. One employment agency contact, however, has noticed more resumes from job applicants previously employed in the health care industry, and still a number of applicants from the legal industry. More broadly, the vast majority of business contacts report that staffing levels have been flat in the final months of 2013. However, substantially more businesses plan to expand than reduce their workforces in 2014.

More generally, firms in a variety of industries in the District, including manufacturing, report some pickup in activity in recent weeks. Business contacts also express increasingly

widespread optimism about the near-term outlook. Overall, price pressures remain stable and generally subdued, though a growing number of service sector firms plan to raise their selling prices in the months ahead.

Financial Developments

Small to medium sized banks across the District report decreased demand for consumer loans and, especially, residential mortgages, while they reported no change in demand for commercial loans and mortgages. For residential mortgages, half of the bankers reported a decrease, while the other half reported no change. Bankers also report decreased demand for refinancing. Credit standards are reported to be unchanged across all loan categories. Respondents note a decrease in spreads of loan rates over costs of funds for all loan categories—particularly residential mortgages. Most bankers indicate that average deposit rates are unchanged. Finally, bankers report widespread declines in delinquency rates for all loan categories—particularly commercial loans and mortgages.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District continued to rise at a modest pace during this current Beige Book period (beginning with the last full week of November). Reports from most sectors changed little. However, auto dealers reported somewhat slower growth at a moderate pace, and existing home sales slowed further than expected, to a slight pace for the winter season. Sectors that continued to expand at a modest pace included general retail sales, tourism, and commercial real estate leasing. Residential and commercial real estate construction and manufacturing continued to expand only slightly. The broad general services sector continued to grow at a moderate rate, and transportation services were described as “booming.” Loan volumes at Third District banks continued to grow at a modest pace across most categories, and credit quality continued to improve. Contacts reported little change to the slight overall increases in wages, home prices, and general price levels – similar to the last Beige Book period.

Despite a slower pace of growth in some sectors, contacts overall maintained an outlook for moderate growth – similar to the last Beige Book. Contacts in most sectors continued to express confidence in the underlying economy. Confidence was bolstered for some as the climate for a less volatile federal fiscal policy seemed to improve. In regard to hiring and capital expenditure plans, firms continued to expand cautiously and will do so until the pace of growth strengthens and exhibits sustainability; in addition, they face ongoing uncertainty from implementation of the Affordable Care Act.

Manufacturing. Third District manufacturers have reported continued increases in orders and shipments at a slight pace of growth overall since the last Beige Book. The share of all firms reporting increases or decreases in general activity was about the same as before, with nearly one-third reporting increases in general activity and a little less than one-fourth reporting decreases. The makers of food products, fabricated metals, and industrial machinery have reported gains since the last Beige Book. Reports of decreases came from the makers of paper products, chemicals, and electronic and other electric equipment. Some firms noted the impact of seasonal trends on business, which were positive for some but negative for others. One contact reported, “We are experiencing the usual holiday increase, but not at the levels of previous years.” Most firms reported steady conditions.

Optimism that business conditions will improve over the next six months remained high and was widespread across sectors. Over half of the firms continued to anticipate increases in activity, though some firms expected decreases in activity, new orders, and shipments. Optimism is also evident from two recent announcements: a Pennsylvania-based firm will acquire one of China’s largest confectioners – greatly expanding its market presence in Asia, and a large Chinese firm announced \$40 million of investments in Pennsylvania – \$30 million to build a high productivity (heavily automated) 500-employee manufacturing plant in the Harrisburg area (products were unspecified), plus \$10 million for research in collaboration with a Pittsburgh-based university. Firms also expected to see the largest increase in health benefits costs

compared with other input and labor costs in 2014. Though still positive overall, contacts have reported lower expectations of hiring and capital spending plans since the last Beige Book.

Retail. Third District retailers have continued to report modest growth overall since the last Beige Book. According to one contact, the shorter holiday shopping season and the winter weather disruptions created more motivated buyers: “Traffic was down about 10 percent in December, but the average purchase almost doubled.” Retailers reported that people bought more “gifts for the home” this holiday season; the home improvement segment had been largely overlooked since the recent recession. Jewelry and cold-weather wear also sold very well this season. Some retail contacts reported lower inventory levels in the wake of the holiday sales – a good problem that may reduce January sales. Results of the post-holiday gift card sales remain uncertain. Retailers remain optimistic for 2014. Outlets operators anticipate opening seven to 10 new centers this year.

Auto dealers have reported a moderate pace of sales since the last Beige Book period – a little off the strong growth they reported for most of the past year. Pennsylvania dealers reported that sales fell off the year’s pace in November but remained a little better than last year; December sales were “just OK,” although the final week was strong. New Jersey dealers reported that December sales were slightly softer than a year ago; however, last year’s sales were boosted by sales of replacement vehicles in the aftermath of Hurricane Sandy. Year-end sales in 2012 were also strong due to higher-than-normal year-end bonuses and to accelerated purchases for tax purposes. The outlook for 2014 is very positive; however, some retailers are beginning to take note that the pent-up demand accrued during the recession may be abating.

Finance. Overall, Third District financial firms continued to report modest increases in total loan volume. Most loan categories appeared to grow somewhat; however, contacts reported slight decreases in commercial real estate loan volumes and some small consumer credit lines. Credit card utilization increased seasonally for holiday shopping and grew through the month of December at a slightly faster pace than last year. Contacts were heartened by “better economic news” and a sense of “greater government fiscal stability.” However, some continued to express caution – for their part and on behalf of their customers – that they need to see a sustained pickup of activity, especially among small businesses. Contacts continue to see credit quality improvement; one expressed an expectation that as mortgages flow into the seriously delinquent category, they will perform better than those from the recent past. “Many of these newer loans will cure,” as the job market is improving, housing is appreciating again, and the underwriting is better. Overall, most bankers remained optimistic for continued slow, steady growth and an opportunity for some acceleration.

Real Estate and Construction. Third District homebuilders have reported that construction has continued at a slight pace of activity since the last Beige Book. One builder reported significantly greater activity in the past few weeks after securing a partially developed subdivision on which to build. Land acquisition at marketable prices remained an oft-cited challenge. Competition for labor from rebuilding projects along the Jersey Shore remained a

problem for New Jersey homebuilders; in central Pennsylvania, the labor availability has improved somewhat, as competition from Marcellus shale activity has abated. According to residential real estate brokers, sales of existing homes declined (year over year) in most of the Third District's major metropolitan areas. Reported decreases ranged from barely negative in southern New Jersey and the Lehigh Valley to about 10 percent in the Harrisburg and Philadelphia metropolitan areas. However, reports of pending sales remained positive, and the inventory of homes for sale continued to fall in most markets. Contacts remained bullish for a "continued, gradual rise" in 2014 despite the somewhat deeper lull than is normal for December.

Nonresidential real estate contacts indicated little change in the slight growth rate of construction and the modest pace of overall leasing activity during this seasonally slow period of the year. New construction of industrial warehouse buildings remains in strong demand, as does new construction of institutional buildings. The summer/fall of 2014 is slated to bring groundbreakings for two major 47-story construction projects: an office/residential tower in University City Philadelphia anchored by the corporate headquarters of a specialty chemical firm and a hotel/condominium tower for Center City Philadelphia. Based on these and other projects, most contacts reported good results for their respective firms in 2013 and expectations for stronger growth in 2014.

Services. Third District service-sector firms continued to report a moderate pace of growth, and tourism received a boost from an early winter snowstorm. Overall, more firms reported increases in sales and new orders than reported decreases, although the trend was slightly less positive than reported in the last Beige Book. The early December storm that interrupted retail shoppers laid a solid base of snow for mid-Atlantic ski resorts; tourism along the Delaware and New Jersey shores remains seasonably slow.

Other service firms reported modest to moderate growth rates. Business information technology service contacts reported strong activity, while contacts for defense-related firms continued to adjust staffing for lower budget allocations. A transportation services contact described "booming" growth for most modes and support facilities in the primary corridor through central and eastern Pennsylvania that serves the Northeast. A concern was expressed that small manufacturers could be forced into costly plant shutdowns if shippers were unable to expand rapidly enough to meet demand for intermediate goods from a potential economic surge. Overall, nearly all service-sector firms reported an expectation that current activity will continue to increase.

Prices and Wages. Overall, Third District contacts reported no change to the steady, slight pace of price level increases, similar to other recent Beige Books. Manufacturing firms reported that prices paid and prices received tended to once more rise slightly. Auto dealers and general retailers reported little change in pricing, and most builders reported holding prices steady. Many contacts reported coping with tight, or narrowing, margins. Generally, real estate contacts continued to report rising prices for lower-priced homes, while higher-priced homes are aligned to local market conditions. Very few contacts are seeing wage pressures, other than for a few highly skilled occupations.

FOURTH DISTRICT – CLEVELAND

The Fourth District's economy continued to expand at a moderate pace during the past six weeks. Most of our contacts have a positive outlook for the new year, and they expect demand for their products and services to remain at current levels or rise. On balance, demand for manufactured products stayed at a higher level relative to a year ago. Housing market activity was strong, while nonresidential builders saw an overall pick-up in business. Retail purchases during the holiday shopping season were above year-ago levels. New-motor-vehicle sales posted moderate gains on a year-over-year basis. The number of drilling rigs rose across the District, while natural gas output was stable. The rate of decline in coal production is slowing. Freight volume was in line with or exceeded expectations. Demand for business and consumer credit weakened slightly relative to our previous report.

Hiring was sluggish across most industry sectors, though the pickup in construction jobs continued. Staffing-firm representatives reported that the number of job openings and placements rose slightly, with vacancies found primarily in healthcare, information technology, and oil and gas. Wage pressures were contained. Input and finished goods prices saw little change, apart from some increases in metals and residential construction materials.

Manufacturing. Reports from District factories indicated that demand continued at a moderate to robust level during the past six weeks. Firms seeing the strongest activity were suppliers to the aerospace, housing, motor-vehicle, and oil and gas industries. Declines in demand were attributed to seasonal variation. The recently enacted federal budget agreement is viewed as providing a boost to defense contractors in the upcoming year. Compared to a year ago, manufacturing production levels are mainly higher. Almost all of our respondents expect demand will remain at current levels through at least the first quarter of 2014. Steel shipments during the fourth quarter were generally characterized as stable or slowly increasing. Demand is strongest from the transportation and oil and gas industries. Defense orders were still described as weak. Shipments in the first quarter of 2014 are expected to be higher relative to the previous quarter. Several contacts in the steel industry noted that confidence on the part of their customers is improving. District auto production showed a seasonal decline during November. However, November production numbers were moderately higher than those recorded a year ago.

Most manufacturers reported that their capacity utilization rates were within a normal range. Numerous respondents said that they have excess production capacity and could easily absorb any demand spikes. Auto parts suppliers were described as operating near capacity. One industry executive estimated that 85 percent of all parts suppliers need to increase capacity, but many are reluctant to do so. In contrast, aerospace suppliers have invested heavily in capacity expansion during the past year. A few steel producers reported lowering capacity utilization, due in part to excess global capacity. Capital expenditures for the upcoming fiscal year are expected to be in line with current year outlays or somewhat higher. Monies are being allocated primarily for rehabbing production lines, technology enhancements, and new equipment. Raw material prices were stable, except for a modest increase in metals. Several of our contacts announced price increases across their product lines, which will go into effect during the first quarter of

2014. On balance, factory payrolls were stable. A majority of our contacts cited rising healthcare insurance premiums as a concern.

Construction. Sales of new single-family homes have been trending slightly lower since October. Nonetheless, single-family construction starts continued at a robust pace and were significantly above year-ago levels. Multifamily construction remains strong. We heard several reports about the inventory of improved lots being at a low level. New-home contracts were found mainly in the move-up price-point categories. Only a few starter homes are being built. Selling prices of new homes have stabilized. One builder observed that he has now reached the limit of how much he can raise prices before impacting demand. Existing home values rose moderately year-over-year. Builders are confident that demand for new homes will persist into 2014, especially in the higher-end segments of the market.

Nonresidential building activity continued to improve, although builders reported that some high-value projects remain stalled in the pipeline. This project stagnation was attributed mainly to lingering uncertainty. Most builders indicated that they are comfortable with their backlogs and that the number of inquiries is rising. Demand was strongest for distribution facilities, industrial buildings, and multifamily housing. Our contacts are cautiously optimistic about near-term prospects, and they are expecting slow, but steady growth during 2014.

Prices for residential construction materials—lumber and drywall—have increased substantially in the past year, but the rate of increase is slowing. A majority of general contractors we spoke with reported hiring some field and back-office personnel since our last report. Most of our contacts experienced increases in health-insurance premiums, generally around 5 percent. Builders reported a scarcity of high-skilled trade workers. As a result, there is upward pressure on wages, and subcontractors are demanding and getting higher rates.

Consumer Spending. Retail sales at the start of the holiday shopping season were above year-ago levels. Electronics, cold-weather apparel, and footwear were selling especially well. In some regions of the District, retailers experienced a tapering off as December progressed. They attributed the decline in part to persistently poor weather conditions. One contact reported a slowdown in sales of teen clothing and school items throughout 2013, which he believes is due to a high level of teen unemployment. A furniture dealer observed that his sales started to pick up recently following a large drop-off that began midway through the third quarter. His outlook is optimistic. Overall projections for the month of January call for sales to be slightly to significantly higher relative to the same time period in 2013. Inventories were described as being in good to great shape. Vendor and shelf prices held steady. Several of our respondents noted that the use of promotions was higher than normal for this time of year. Hiring during 2014 will be mainly limited to staffing new stores and for e-commerce support.

Year-to-date sales through November of new motor vehicles showed a moderate increase when compared to the same time period in 2012. On a month-over-month basis, November purchases of new vehicles exhibited a seasonal decline. Buyers continued to shift from smaller, fuel-efficient cars to SUVs, crossovers, and light trucks. Some of the increase in truck sales was attributed to growing demand for vehicles by residential builders. Reports on new-vehicle inventories were mixed. The rate of growth in new-vehicle sales during 2014 is expected to be

positive, but not as strong as in 2013. Used-vehicle purchases declined from October to November, but year-to-date sales were higher when compared to 2012. Dealers are planning fewer capital projects in 2014 relative to the past couple of years. Payrolls held steady since our last report.

Banking. Demand for business credit was stable or down slightly during the past six weeks. No loan category is performing considerably better than others, although many bankers said that commercial-real-estate lending continued to pick up. Organic loan growth was characterized as slow, due in part to businesses holding excess cash. Several respondents commented that long-term interest rates need to rise more than 200 to 300 basis points before any meaningful impact will be seen on spending decisions by businesses. Consumer credit demand was described as steady or down slightly. Auto lending drew the highest demand, while home-equity products slowed. A few bankers saw a pick up in credit card usage, which they attributed to holiday shopping. Most contacts reported a net slowdown in residential mortgage activity. While there was an increase in new purchase applications, they did not offset the decline in refinancings. Several bankers raised concerns about new banking regulations related to real estate—residential and commercial—and their potential negative impact on lending and operating costs. For the most part, delinquency rates were stable. No significant changes to loan-application standards were reported. Core deposits by businesses and consumers grew. We heard a few reports about staffing cuts due to branch closures and cost containment.

Energy. Aggregate coal production across the District remains slightly below year-ago levels. A large decline in eastern Kentucky is being offset by increases in Ohio and northern West Virginia. Going forward, little change in output is projected. Spot prices for steam coal increased, reflecting seasonal variation, while metallurgical coal prices held steady. The number of drilling rigs increased across the District since our last report. Natural gas production was stable, but at a high level. Well-head prices for natural gas rose slightly, while oil prices declined. No change was reported in the cost of production equipment and materials. Payrolls held steady.

Freight Transportation. Freight executives reported that shipping volume was in-line with or exceeded expectations during the past six weeks. The industry outlook for 2014 is more favorable compared to our last report, with year-over-year volume expected to grow at a moderate to strong pace. One respondent attributed the upbeat outlook to the rebound in manufacturing. A few contacts noted that the limited availability of qualified drivers and the recently enacted hours of service (HOS) regulations have resulted in a tightening of capacity during the fourth quarter. They believe this issue will intensify during 2014. Operating costs were mostly stable. Capital outlays for the fiscal year were in line with budgets. Little change in capital spending is forecast, with monies allocated more toward replacement. The industry has been hiring for replacement and, as a result of HOS, to maintain current capacity.

FIFTH DISTRICT–RICHMOND

Overview. The District economy grew at a moderate pace in recent weeks. Manufacturing shipments and new orders had mostly solid increases, although there were also a few reports of weakness. Retail sales softened, with the exception of big-ticket items. Demand for non-retail services was little changed. Tourism generally flattened, with the exception of resorts specializing in winter activities. Borrowing by consumers slowed, except for new home construction and car loans. Commercial lending picked up, particularly for large projects. Residential real estate improved since our last report, with some areas reporting more residential construction. Commercial construction expanded for educational, medical, and some retail projects, and remained strong in multi-family. Commercial leasing reports varied across the District. Agricultural yields exceeded expectations, particularly for crops that were put at risk by excessive rains in this growing season. The energy sector remained stable, with minimal change in production since our last report. Hiring in the District continued to improve, despite lingering concerns about costs related to the Affordable Care Act and difficulty finding highly skilled workers. Average wages declined in the service sector while manufacturing wages increased moderately. Service sector prices rose at a faster pace, while manufacturing price growth slowed.

Manufacturing. Manufacturing grew moderately overall in recent weeks, although there were scattered reports of weakness. According to the latest manufacturing survey, shipments and new orders had solid growth. In addition, a West Virginia cabinet manufacturer remarked that steady growth in new construction boosted sales for his firm's higher-end cabinets. Further, an electrical components manufacturer in Virginia and a custom plastics executive in North Carolina reported stronger new orders. Food production executives in Virginia also reported a slight increase in demand for their products. In North Carolina, textile and composites manufacturers broke ground for new plants. On the other hand, a Maryland machine tool manufacturer stated that orders from builders and distributors were down. Also, a copper and aluminum materials producer in South Carolina noted a softening in sales, and a South Carolina food manufacturer reported a slight decline in shipments. Prices of raw materials and finished goods rose at a slower pace, according to our survey respondents.

Ports. Ports reported strong year-over-year traffic, even after eliminating effects of diversions to the Fifth District from northern ports as a result of last year's major hurricane. Paper, pulp, and agricultural exports were especially robust. Auto units were down slightly from a year ago, but remained strong. Exports of agricultural and construction machinery increased compared to earlier this fall, but declined mildly from a year ago. In contrast to softer demand in domestic markets, foreign coal shipments were up slightly year over year. On the import side, manufacturing supplies such as pipe and wire have risen significantly and port administrators expect that re-shoring of manufacturing will continue to build demand for such imports.

Retail. Retail sales growth generally slowed, with a few exceptions in recent weeks. A retail representative in central Virginia remarked that the pace of sales at small merchants in that area was “pretty depressing.” In addition, a discount department store manager commented that holiday sales were slightly below last year’s. Auto sales remained strong, ending the year slightly above year-ago levels, as manufacturers of both domestic and foreign cars offered incentives to move the 2013 inventory. A dealer commented that people have more confidence in the economy and are now willing to get that new car “they’ve been hankering for.” He expected prices of used cars to decline as trade-ins continue to flood the market. In addition, sales of heavy trucks in West Virginia are being driven by increased natural gas production in that state. Furniture sales were strong, with an upscale furniture retailer reporting customer preference shifting to products produced in the U.S. and Canada. Pharmacy and apparel sales also rose. Survey responders indicated that average retail prices increased more quickly in recent weeks.

Services. Non-retail services contacts reported little change since our last report. An executive at a national trucking firm said demand had slowed in recent weeks, which would result in capacity tightening as some smaller firms shut down or idled trucks rather than renew vehicle registrations for 2014. An accounting firm in West Virginia reported generally flat demand for services, with the exception of an increase in audit work for non-profits due to federal grant requirements. Demand was generally soft at hospitals and other healthcare organizations, and administrators reported that they expect decreasing utilization along with declining Medicaid and Medicare reimbursement under the Affordable Care Act. One executive reported that the only change was an increase in flu and Norovirus cases in central North Carolina. Prices rose at a slightly faster pace at non-retail services firms.

The tourism industry had slow to flat bookings in recent weeks, outside of resorts specializing in winter activities. In Virginia, a resort manager remarked on the good skiing weather this season, having already sold several times the number of passes as last year at this time. Tourism was moderate on the outer banks of North Carolina, where the re-opening of the Hatteras Bridge reduced the need for ferrying tourist traffic. In Charleston, South Carolina, the restaurant industry is growing, but parking and congestion remain a problem. Rates were unchanged at most hotels.

Finance. Consumer borrowing generally weakened in recent weeks, while commercial lending strengthened. Reports across the District indicated low demand for mortgages on existing homes and refinance loans. In contrast, new construction lending improved. A South Carolina lender noted that loans for luxury autos were robust as consumers took advantage of low interest rates. According to a Virginia lender, mortgage interest rates rose recently, while consumer credit standards were unchanged. Another lender commented on the competitive atmosphere, and said he expects lenders to become more aggressive. Additionally, a Virginia bank executive reported that underwriting exceptions were more prevalent, especially in nonrecourse lending. In commercial lending, applications for large business expansion loans have increased. A North Carolina banker noted a pick-up in capital investments,

particularly for construction projects. However a central Maryland banker reported that small business lending slowed.

Real Estate. Residential real estate grew moderately in the past four to six weeks. Brokers reported a mild increase in sale prices, steady buyer traffic, and a slight uptick in property sales. According to a central Virginia Realtor, cash sales increased and higher end houses were “selling fast.” However, a few agents stated that prices remained flat, and reports on higher end home sales were mixed. On balance, the average days-on-market and inventory decreased. In addition, brokers reported a positive outlook for the spring market, noting higher inventory of better quality homes as well as fewer short sales and foreclosures. Overall, residential construction remains tepid. A few brokers stated that single family home construction is picking up, primarily where developers are completing previously started projects.

Commercial construction increased, with a contact reporting new projects underway for college campus housing and small medical centers in Maryland and the District of Columbia. Brokers also reported continued growth in grocery-anchored commercial construction. Multi-family housing remains active, while office building continues to be depressed. Commercial leasing was mixed since our last report. Most Realtors reported little change in demand for Class A office space, although a Virginia Beach broker reported relatively high vacancies. Demand for retail space in the Tidewater area of Virginia was mixed. A broker in the District of Columbia retail market reported that large blocks of space are in short supply. In North Carolina, a Realtor has received steady inquiries for industrial distribution space. Realtors indicated a slight increase in commercial sale prices, and little change in lease rates.

Agriculture and Natural Resources. Agricultural reports were generally positive in recent weeks. A few sod and seed companies reported a decline as a result of poor weather conditions. A vegetable farmer in North Carolina said that the excessive rain this season was less destructive than expected, and with increased demand, the year ended better than anticipated. Additionally, a Maryland fruit farmer reported excellent fruit yields due to the cold weather. Another Maryland contact remarked on this season’s increase in corn sales, and added that corn was the leading export crop in his region this year. In animal farming, a West Virginia source noted strong growth in poultry processing. Reports regarding input and output prices were mixed.

Natural gas production edged up slightly. A West Virginia contact stated that the industry continued to grow in all facets of production. Growth in natural gas was also said to be helping other businesses in the region. Coal miners indicated little change in production since our last report, but said output was slightly down compared to a year ago. A contact commented that Central Appalachian coal producers were struggling with low coal prices, regulation, and a decrease in employment.

Labor Markets. Conditions continued to improve throughout the District in the last several weeks with numerous reports of strong labor demand. However, few of our contacts offered permanent positions to seasonal workers, and many employers remarked on the high turnover among low-skill workers. A

staffing consultant in Maryland noted that “there is a greater sense of confidence going into 2014,” and that the highest demand is for IT and engineering skills. Elsewhere in the District, a Virginia contact reported that skills related to healthcare were in high demand. According to our manufacturing survey, hiring expanded robustly while the service-sector survey reported marginal growth on the retail side and only small increases in the non-retail subsector. In addition, several sources continued to report difficulty finding qualified workers or having to pay a premium to get them. In fact, one manager suggested that qualified candidates seemed to be basing employment decisions on more than just salary, and were also considering factors such as the work environment. Employers continued to express concern about potential cost increases related to the Affordable Care Act. Average wages rose moderately at manufacturing establishments, but declined at services firms, according to our latest survey.

SIXTH DISTRICT – ATLANTA

Summary. Business contacts indicated that from late November through December overall economic conditions improved moderately in the Sixth District. The outlook among contacts was optimistic with most expecting modest growth for early 2014.

District merchants noted positive year-over-year holiday sales growth with on-line sales outpacing traditional store sales. The hospitality sector continued to experience the same solid pace of activity that it had all year long. Similar to the previous report, residential housing brokers noted that existing home sales growth continued to slow, while homebuilders experienced modest growth in new home sales. Commercial contractors described construction activity as improving, especially in the multifamily segment of the market. Manufacturers indicated that overall activity strengthened since the previous report. Banking contacts noted that applications for mortgage loans were down. Employment levels across the District grew at a mild pace, while cost pressures remained stable.

Consumer Spending and Tourism. Prior to the start of the holiday season, retailers expressed concerns about the fewer number of shopping days as compared to 2012 due to the timing of Thanksgiving. However, many merchants indicated that by offering deeply discounted merchandise and extended hours of operation, their stores experienced positive sales growth over the reporting period. Reports also indicated on-line retailers fared better than the traditional brick-and-mortar stores. Automotive dealers continued to cite solid vehicle sales.

Hospitality contacts noted that occupancy rates, revenue per available room, and room rates for the holiday season exceeded year-ago levels. Hoteliers anticipate that this winter season will outperform last year based on advanced bookings. In the coming months, some District cities are expecting an increase in visitors from the addition of new direct international flights as well as new area attractions.

Real Estate and Construction. District brokers indicated that growth in existing home sales slowed in recent months. The majority of brokers said sales were flat to slightly up compared with a year earlier but below their plan for the period. By most accounts, inventory levels were flat to slightly down on a year-over-year basis. Most contacts reported that home prices remained ahead of the year earlier level but that price gains have slowed on a month-over-month basis. The outlook among brokers has improved since our last report with more contacts anticipating that sales will be slightly up on a year-over-year basis over the next several months.

Reports from District builders were more positive than broker reports. Most contacts agreed that recent activity was in line with their plan for the period. The majority of builders noted that

construction activity and new home sales were ahead of the year earlier level. Reports indicated that unsold inventory levels were flat to slightly down. The majority of builders reported modest home price appreciation. The outlook for new home sales and construction activity remained positive among most contacts.

District brokers noted that demand for commercial real estate continued to improve, though they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Construction activity continued to increase at a modest pace from earlier in the year; contacts noted that apartment construction was still much more robust than construction in the other sectors. New build-to-suit projects continued to break ground across the region and landlords continued to update and reconfigure existing space to make it ready for tenants. The outlook among District commercial real estate contacts remained positive with further improvements expected early in 2014.

Manufacturing and Transportation. Manufacturing activity strengthened slightly during the reporting period. Contacts reported gains in new orders and production. Manufacturers also noted that commodity prices were relatively flat and employment modestly increased. Finished inventories decreased as businesses looked to reduce inventory levels, and purchasing agents experienced longer wait times for materials ordered from their suppliers. Optimism regarding future production continued as auto manufacturers experienced strong sales in November. Nearly half of contacts expect production levels to increase over the next three to six months.

Logistics contacts noted year-to-date increases in the movement of industrial and healthcare-oriented goods. Delays in holiday shipments to consumers were reportedly due to the shortened shopping season, higher than expected on-line sales, adverse weather conditions, and lower inventory levels at distribution centers. Rail contacts cited year-over-year increases in intermodal traffic supported primarily by significant increases in the movement of petroleum products. Trucking contacts anticipate that tonnage will increase substantially over the previous year buoyed by growing sectors of the economy that generate heavier freight loads, such as residential construction and energy production.

Banking and Finance. Community bank contacts expressed continued concern about the implementation of qualified mortgage requirements in 2014 and the possible negative effect on mortgage lending, particularly as some mortgage lenders exit the mortgage lending business altogether or change their business models because of the added risks. Some lenders indicated they were shifting their focus from residential mortgages to small business and commercial real estate loans. Overall, applications for mortgage loans were down as refinancing activity slowed.

Competition for qualified borrowers continued to increase and individual bankers attributed much of their increased market share of lending to luring loans away from other banks. Non-revolving credit continued to increase mostly due to robust vehicle sales.

Employment and Prices. Businesses did not indicate a significant pickup in hiring, nor did they report any staff reductions. Businesses continued to employ technology and utilized overtime and contract labor as an alternative to increasing permanent staff. Contacts in manufacturing, construction, professional, and energy sectors report persistent difficulty in finding qualified workers. On balance, many firms expressed continued hesitancy caused by concerns about healthcare reform in terms of their overall hiring plans.

Cost pressures remained mostly stable, according to business contacts. Healthcare was the most cited exception, with reports of larger cost and price increases than usual. Merit increases remained in the 1 to 3 percent range. However, skilled and professional positions in energy, construction, information technology, and logistics continued to see above-average wage increases and higher starting pay. Year-ahead unit costs expectations were 1.9 percent in December, unchanged for the fourth consecutive month, according to the Atlanta Fed's survey on business inflation expectations.

Natural Resources and Agriculture. Capacity utilization in the energy industry remained near historic highs, according to contacts. Deep water oil exploration in the Gulf of Mexico picked up, bolstered by the completion of recent pipeline infrastructure projects. Contacts noted that costs to transport domestic crude oil to refineries along the Gulf Coast via land or barge continued to rise. However, the outlook for demand, pricing, and productivity for the industry was optimistic on the whole for the coming year.

Recent rains improved soil conditions in some areas of the District, while parts of Georgia, Alabama, Louisiana, and Florida experienced dry conditions. Monthly prices paid to farmers for rice and soybeans were up; prices for beef and broilers remained unchanged; and prices for corn, cotton, and hogs were down. The most recent domestic crop production projections for soybeans, corn, and rice were unchanged. Cotton and orange projections were down, although cotton was only down slightly. Similarly, projections for domestic beef and pork production rose, while broiler production remained unchanged.

SEVENTH DISTRICT—CHICAGO

Summary. The rate of growth in economic activity in the Seventh District increased in late November and December, though the overall pace was still moderate. Furthermore, contacts were more optimistic about 2014 than they were during the previous reporting period. Growth in consumer and business spending picked up to a moderate pace. Manufacturing production growth was solid, while construction activity increased modestly. Credit conditions loosened slightly. Cost pressures were up slightly, but remained mild. Corn, soybean, and milk prices increased some, while hog prices moved lower and cattle prices were little changed.

Consumer spending. Growth in consumer spending picked up to a moderate pace in late November and December, with holiday sales modestly exceeding expectations. Total holiday spending was lower this year, though contacts indicated that improving consumer confidence and falling unemployment boosted retail activity in many areas. Luxury goods continued to sell better than non-luxury discretionary items. Severe winter weather, while reducing store traffic in some locations, spurred sales of winter-related items. Contacts also noted a negative impact on late holiday sales as some customers were hesitant to use debit and credit cards after a data security breach at a large national retailer. Light vehicle sales moved up in the District, with mid-size sedans, larger SUVs, and pick-up trucks some of the strongest-selling segments.

Business spending. Business spending also picked up in late November and December. Inventories remained at comfortable levels for most retailers. Auto dealers continued to report that they were keeping inventories slightly higher than normal in anticipation of increased demand in the coming months. Manufacturer's inventories were somewhat lean. Growth in capital expenditures picked up slightly, led by spending on structures; examples included grocery stores, automobile dealerships, and expansions at auto supplier plants. Contacts also reported investing in equipment, information technology, and vehicles. Capital spending plans for the next six to twelve months declined slightly, and a few contacts noted plans to either pay down debt or halt further expansion after significantly ramping up capital expenditures in previous years. The pace of hiring picked up, as did expectations of future hiring. A staffing firm reported continued growth in demand, with improvement in both industrial and professional sectors. Many contacts noted continuing strength in demand for skilled and experienced workers, with positions often difficult to fill in engineering, technology, accounting, and other technical occupations. Several contacts also reported difficulty retaining skilled workers because of improving job and income prospects in the labor market.

Construction/real estate. Construction and real estate activity increased modestly in late November and December. Demand for residential construction continued to expand, with strong growth again in the multifamily sector. Contacts expected that record low vacancy rates for apartments would continue to boost new multifamily construction over the coming year. Home sales, prices, and rents all rose, though the slow foreclosure process continued to impede existing home sales. Contacts noted an increase in the number of single-family homes purchased for rental or investment purposes. Demand for nonresidential construction remained modest, but picked up some from the previous reporting period. Commercial real estate activity also improved, with vacancies declining and rents increasing. Contacts noted especially strong growth in high-end retail and investments in income generating properties.

Manufacturing. Manufacturing production growth was solid in late November and December. Contacts were generally optimistic about the outlook for manufacturing in 2014, pointing to expected strength in the auto, aerospace, and energy industries. The auto and aerospace industries in particular were a source of strength for the District in the second half of 2013. Low steel service center inventories continued to boost the demand for steel, and contacts noted that demand for other industrial metals also increased. Manufacturers of construction materials reported a moderate increase in demand as the housing market continues to improve. Increasing construction also led to some improvement in the demand for heavy equipment, though the overall level of activity remained soft. Demand for heavy- and medium- duty trucks was down following the pull-forward of spending earlier in 2013 in response to new EPA emissions standards. Manufacturers of durable consumer products and recreational vehicles also expected to see faster growth in 2014, with wealth gains from the rising stock market and home prices boosting demand.

Banking/finance. Credit conditions loosened slightly over the reporting period. Equity markets continued to rise, with investors' risk appetite increasing according to financial market contacts. Corporate borrowing spreads narrowed, especially in the high-yield debt market. In addition, banking contacts reported increased competition from local and regional banks was leading to downward pressure on pricing and looser and fewer covenants in deal structures for both small and middle market firms. Aggressive lending in the institutional leveraged loan market was also cited, increasing debt-to-equity multiples. Business loan demand improved, with higher utilization of lines of credit and an increase in borrowing for purchases of equipment and to tenants looking to purchase properties that they were currently leasing. However, contacts noted some softness in loan demand from agricultural and mining firms. Household loan demand was more

VII-3

mixed, with a decrease in mortgage refinancing and a slight increase in auto lending. Furthermore, contacts indicated that tight lending standards remain a barrier to new mortgage finance.

Prices/costs. Cost pressures increased slightly over the reporting period, but remained mild. Contacts reported increases in commodity prices, in particular for cement, concrete, brick, natural gas, steel, and other industrial metals. Overall, wage pressures were down slightly, though several contacts indicated rising wage pressures for skilled workers. Non-wage labor costs also increased, with a number of contacts reporting higher healthcare premiums.

Agriculture. Corn and soybean prices moved a bit higher over the reporting period, but remained well below their levels of a year ago. Current prices for corn will not cover expected costs for 2014 production, whereas soybean prices would. This may lead to increased soybean planting in the spring. Farmers continued to store crops in anticipation of future price increases. In some locations, however, there was an incentive to sell corn sooner, in part because of an increase in demand for ethanol production, which has returned to profitability. Hog prices moved lower, while cattle prices were little changed. Milk prices edged up, and there was evidence of some expansion in District dairy herds. Parts of the District remained in a drought, which makes the timing of spring precipitation more critical. In addition, there was less fertilizer application last fall due in part to cleaner water regulations.

Eighth District - St. Louis

Summary

Economic activity in the Eighth District has grown at a moderate pace since the previous report. Recent reports of planned activity in manufacturing and services have been largely positive, although reports from some contacts in the retail sector have been mixed. Overall residential real estate market conditions in the District have continued to improve, and commercial and industrial real estate market conditions have also improved. Total lending at a sample of small and mid-sized District banks remained largely unchanged from mid-September to mid-December.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been largely positive since our previous report. Several manufacturing firms reported plans to add workers, expand operations, or open new facilities in the District. Firms in automobile, silicon metal, overhead distribution products, tanker barge, primary metal, furniture supply products, fiber board, air conditioner parts, laboratory equipment, oilfield equipment, medical device, automation equipment, and railroad tie manufacturing announced plans to hire new employees and expand operations in the District. In contrast, a firm that manufactures aluminum products reported plans to close a plant and lay off workers in the District.

Reports of planned activity in the District's service sector have also been positive since the previous report. Firms in health care, online shopping, information technology, telecommunications, restaurant, distribution, and insurance services reported new hiring and expansion plans in the District. In contrast, a firm in wholesale grocery services announced plans

to lay off employees. Retail contacts across the District reported openings of new facilities. Retail contacts in the Louisville area noted that sales for 2013 were mostly flat to slightly higher than those in 2012, while retail contacts in the St. Louis area noted that Black Friday sales were lower than anticipated. In Louisville, restaurant contacts noted an increase in corporate dining. In St. Louis, tourism contacts reported the closure of a hotel in the downtown area.

Real Estate and Construction

Home sales have continued to increase throughout most of the District on a year-over-year basis. Compared with the same period in 2012, November 2013 year-to-date home sales were up 16 percent in Louisville, 17 percent in Little Rock, 8 percent in Memphis, and 5 percent in St. Louis. November 2013 year-to-date single-family housing permits increased in the majority of the District's metro areas compared with the same period in 2012. Permits increased 8.3 percent in Louisville, 16 percent in Memphis, and 13 percent in St. Louis. In contrast, permits decreased 8 percent in Little Rock.

Commercial and industrial real estate market conditions have improved throughout most of the District. A contact in central Arkansas noted growing activity in the industrial real estate market. Contacts in both Louisville and St. Louis reported thriving downtown commercial markets. A contact in Memphis reported that office and retail vacancy rates declined during the third quarter of 2013. Commercial and industrial construction activity also improved throughout most of the District. A contact in Memphis reported a new commercial construction project in Horn Lake, Mississippi. A contact in Louisville reported construction of several new commercial buildings in the downtown area. A contact in northwest Arkansas noted an emerging market for medical office space. Contacts in St. Louis reported plans for a new commercial construction

project in the midtown area, as well as multiple commercial development projects in the Grove neighborhood.

Banking and Finance

Total loans outstanding at a sample of small and mid-sized District banks remained largely unchanged from mid-September to mid-December. Real estate lending, which accounts for 72.9 percent of total loans, saw no change. Commercial and industrial loans, accounting for 15.6 percent of total loans, decreased 0.6 percent. Loans to individuals, accounting for 5 percent of total loans, increased 0.9 percent. All other loans, accounting for 6.5 percent of total loans, increased 0.7 percent. During this period, total deposits at these banks decreased 0.5 percent.

Agriculture and Natural Resources

As of late November 2013, around 98 percent of the District's winter wheat crop was rated in fair or better condition, as 89 percent of the winter wheat crop had emerged, on average, across the District states. This rate of progress was moderately faster than the average over the past five years. Year-to-date red meat production in the District for November 2013 increased by 0.5 percent compared with the same period in 2012. Arkansas experienced a noticeable 62.3 percent decline in red meat production over the same period; however, production in Arkansas accounts for less than one percent of total red meat production in the District. Year-to-date coal production in the District for November 2013 was 3.9 percent higher compared with the same period in 2012. On a monthly basis, coal production for November 2013 was 5.7 percent higher than in November 2012.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy experienced moderate growth since the last report. Increased activity was noted in consumer spending, tourism, residential and commercial construction, commercial real estate, professional services, manufacturing, and energy and mining. Residential real estate was mixed, while agricultural conditions weakened for farmers. Labor markets showed signs of tightening since the last report, and wage increases were moderate. Prices generally remained level, although contacts expected prices to pick up modestly in 2014.

Consumer Spending and Tourism

Consumer spending increased moderately. A Minnesota-based retailer noted that electronics and gaming product sales were particularly strong during the holiday season. A couple of snowmobile and all-terrain vehicle dealers in Minnesota reported strong sales during November and December compared with a year earlier. Recent car and truck sales were above year-ago levels in Minnesota. Meanwhile, in Montana a mall manager noted that December sales were about the same as last year. According to a mall manager in North Dakota, holiday sales were about level with last year's very strong numbers.

Winter tourism activity was off to a solid start due to snowy weather. A ski resort in Minnesota noted that lodging and early reservations were up from a year ago; however, frigid weather during late December slowed ski admissions. Snowmobiling and cross country skiing have benefited from early snow in northwestern Wisconsin, according to a representative of a chamber of commerce.

Construction and Real Estate

Commercial construction activity continued to grow since the last report. Construction sector respondents to the Minneapolis Fed's annual business outlook poll expect sales volumes to increase but capital investment to remain flat at their firms in 2014. "Our local economy looks better all the time," commented a Minnesota commercial construction firm. Overall residential construction activity was up slightly. In the Minneapolis-St. Paul area, the value of December residential permits grew by 20 percent from December 2012. The value of December residential building permits in Sioux Falls, S.D., increased from 2012. The value of November residential building permits in Billings, Mont., grew significantly from November 2012. However, a housing construction firm in the Upper Peninsula of Michigan and northwestern Wisconsin noted that the industry was "not looking good."

Activity in commercial real estate markets increased since the last report. Recently, several office and industrial buildings were sold in the Minneapolis-St. Paul area. A Sioux Falls commercial real estate firm noted a lot of corporate leasing and sales activity. Residential real estate markets experienced mixed activity since the last report. In the Sioux Falls area, November home sales were up 14 percent, inventory was down 3 percent and the median sale price increased 7 percent relative to a year earlier. In La Crosse, Wis., November home sales decreased and the median price increased from November 2012. Meanwhile, November home sales were down 9 percent from the same period a year ago in Minnesota; the inventory of homes for sale increased by 3 percent, and the median sale price rose 10 percent. The University of St. Thomas Minneapolis-St. Paul residential real estate report predicts a solid year in the housing market for 2014.

Services

Activity at professional business services firms increased since the last report, and the 2014 outlook is positive. Services sector respondents to the business outlook poll expect sales volumes and capital investment at their firms to grow in 2014; four out of five were optimistic for their community's economic performance. Several contacts in the technology sector noted increased demand for consulting services, especially for information analytics. Contacts from the health care sector reported increased capital expenditures.

Manufacturing

Manufacturing activity grew at a solid pace since the last report. A December survey of purchasing managers by Creighton University (Omaha, Neb.) showed that manufacturing activity increased in Minnesota and the Dakotas. The Minneapolis Fed's 2013 manufacturing survey results indicate that respondents on average expect orders, production, employment, capital investment and profits at their operations to increase in the coming year. A new wool mill in Minnesota will be the second-largest such operation in the nation. A manufacturer of hoses for the automotive industry will open a new production facility in the Upper Peninsula.

Energy and Mining

Activity in the energy and mining sectors increased. Late-December oil and gas exploration activity increased in North Dakota and decreased in Montana from a month earlier. A proposed \$250 million solar power project in Minnesota came closer to development, due to a judge's ruling. Most Minnesota iron ore mines continued to

operate at near capacity. Minnesota released an environmental impact report on a proposed copper-nickel mine showing substantial long-term costs, bringing the future of the project into question.

Agriculture

Overall conditions for District farmers weakened, although livestock and dairy producers saw improvement. Annual production decreased from a year earlier in District states for wheat, soybeans, dry beans and sugar beets; District corn production increased, but price reductions likely outweighed the benefits to farmers. A farm equipment retailer saw a reduction in sales revenue sooner than expected, due to falling crop prices. District sugar beet farmers are facing steep losses this year due to a decline in sugar prices. December prices received by farmers fell from a year earlier for corn, soybeans, wheat, hay, hogs and chickens; prices increased for cattle, turkeys, eggs, milk and dry beans.

Employment, Wages and Prices

Labor markets showed signs of tightening. According to the business outlook poll, 30 percent of respondents expect to hire more full-time employees in 2014, while 18 percent expect to have fewer full-time employees. According to a recent St. Cloud (Minn.) Area Quarterly Business Report, 47 percent of survey respondents expect to increase the number of employees over the next six months, while 8 percent expect decreases. An air distribution product firm announced plans to open a facility in Minnesota that is expected to hire 40 workers. Meanwhile, a representative of a North Dakota employment service agency reported more long-term jobs offered in response to the strong state economy.

Overall wage increases were moderate since the last report and are expected to remain moderate during 2014. According to the business outlook poll, 93 percent of respondents expect wages and salaries in their communities to increase 3 percent or less in 2014, the same percentage as last year. However, a Minnesota company was reporting offering signing bonuses and moving expenses to attract manufacturing workers.

Overall prices remained level. Late December Minnesota gasoline prices were up only about 10 cents per gallon from the month earlier and a year earlier. Pressure to increase prices is expected to pick up modestly in 2014, as a somewhat larger share of respondents to the business outlook poll and survey of manufacturers expect to increase prices for their own products and services compared with the previous year.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy held steady in December after expanding modestly during the previous survey period. Consumer spending was mixed due to a slowdown in automobile sales and hotel occupancy, but retail sales increased somewhat. Manufacturing activity declined slightly, while expectations for future activity improved. Activity in the residential real estate sector continued to slow slightly, while commercial real estate activity remained mostly flat. Both residential and commercial real estate activity, however, were above the levels this time last year. Bankers reported steady overall loan demand, improved loan quality and stable deposit levels. Agricultural growing conditions for winter wheat improved in late November and December, but low crop prices limited farm income expectations. Energy activity in the District rose modestly as contacts reported more drilling, hiring, and capital expenditures over the last month. Wage pressures edged down since the last survey, even though a mild rise in labor shortages was reported. Prices for final goods held steady despite an increase in the price of raw materials.

Consumer Spending. Consumer spending was mixed in late November and December as automobile sales and hotel occupancy declined, while retail sales slightly increased. Most contacts reported sales activity as lower than they had expected although retail sales increased compared to the prior month and were higher relative to the same time last year. However, district retailers had expected higher levels and attributed the lower than expected sales to a shorter and slower holiday shopping season, and harsh weather conditions. Sales of appliances and lower-priced items continued to be strong, while sales of hardware, outdoor, as well as higher-priced items lagged. Auto sales declined and were lower than anticipated, but auto dealers foresaw higher sales in the coming months. The strongest sales came from light pickups, small SUVs, and crossovers. Auto inventories increased moderately from a month ago, and dealers expected an elevated level going forward. Restaurant sales were unchanged and remained steady compared to their levels last year. Restaurant contacts restated their concern about increasing food prices and anticipated a further rise in the near future. Tourism activity grew slightly since the last survey and increased moderately compared to the same time last year. Occupancy and room rates were down in the survey period, but held steady compared to year-ago levels.

Manufacturing and Other Business Activity. Manufacturing and transportation activity fell slightly in December, while sales at high-tech service firms remained stable. Durable

manufacturing production, shipments and new orders decreased modestly since the last survey. Nondurable goods manufacturing activity also decreased slightly, with the exception of new orders. Some contacts cited poor weather, and continued fiscal and regulatory uncertainty as reasons for the December slowdown. However, activity in the manufacturing sector remained well above year-ago levels and expectations for future activity rose modestly, with the majority of contacts expecting to increase or maintain current levels of employees and capital expenditures. Sales at high-tech companies held at previous reporting period levels, with most contacts expecting higher levels of activity in the future. Transportation companies reported slightly lower sales compared to the previous month and to the previous year though expectations for future activity were also little changed.

Real Estate and Construction. Activity in the residential real estate sector showed signs of a slight decline, while commercial real estate activity remained mostly flat, with the exception of construction, from the previous survey period. Residential realtors reported strength in sales of low to mid-range priced homes, but condos and higher-end home sales were sluggish in parts of the District. Residential and commercial real estate prices maintained their upward trend and they were expected to rise further. Housing starts remained unchanged in late November and December, though they were higher compared to last year. Contacts anticipated positive future home building. Some builders indicated difficulties finding qualified labor and said it impeded their ability to start new projects. Construction supply companies' sales slowed, but firms were optimistic about future sales. Mortgage activity was again lower this period and also as compared to a year ago, caused primarily by a decline in refinancing. However, lenders expected mortgage activity to increase in the future. Commercial real estate construction rose, and vacancy rates remained low. Commercial real estate prices and rents were also higher, and contacts expected the rise to continue.

Banking. Bankers reported steady overall loan demand, improved loan quality and stable deposit levels in December compared to the prior survey period. Respondents reported increased activity in agricultural loans, and steady demand for commercial and industrial loans and commercial real estate loans. Demand for residential real estate loans declined further during the survey period. Bankers remained positive concerning loan quality compared to a year ago, and nearly all bankers anticipated loan quality to either improve or remain the same in the near future. Credit standards remained unchanged in all major loan categories, along with stable deposits reported.

Agriculture. Agricultural growing conditions improved in late November and December, but low crop prices limited farm income expectations. The winter wheat crop was rated in mostly good condition with winter storms providing soil moisture and protective snow cover. However, wheat prices fell slightly since the last survey period, and corn and soybean prices remained at their lowest levels since 2010. Some farmers were holding fall crop inventories rather than selling at current prices. Lower income prospects boosted demand for farm operating loans and dampened farm capital spending at year-end. In the livestock sector, weaker demand for pork from Asian markets placed downward pressure on hog prices. While cattle prices were relatively flat, profit margins for cattle producers may improve as better pasture conditions lessen the need for supplemental feed.

Energy. Energy activity rose modestly in late November and December. Contacts indicated greater drilling and business activity. Capital expenditures in the energy sector also increased modestly. Hiring by contacts in the sector grew at a stronger pace compared to the prior survey period. The number of oil rigs in District states increased slightly. Natural gas prices increased during the survey period, but were expected to decline in the coming months. Oil prices also increased slightly and were anticipated to hold steady. Wyoming's coal production increased modestly, but remained lower than year-ago levels.

Wages and Prices. Contacts reported prices for most raw materials were on the rise, yet prices for final goods were mostly unchanged. In general, wage pressures edged down in late November and December, despite a mild rise in labor shortages. However, wage pressures were noted for some positions including skilled construction positions, software developers, and technicians. Retailers reported a slight increase in prices and expected modest price growth in the coming months. The prices manufacturers received for final goods were lower, though the prices they paid for raw materials were higher than in the last survey period. Most manufacturing contacts foresaw both of these prices rising in the months ahead. Transportation companies also saw their input prices rise while keeping their prices mostly unchanged. Builder input prices were steady over the last month. Restaurant menu prices went up only slightly last month, but contacts anticipated moderate price growth in the near future. Restaurants continued to see a rise in food costs, and expected the trend to continue.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a moderate pace over the past six weeks. Manufacturing activity continued to increase overall and outlooks were quite positive, although there were a few reports of weaker demand. Retail and automobile sales reports were mixed, and nonfinancial services firms generally reported improved demand. Sales of single-family homes improved slightly, and apartment, office and industrial leasing activity held steady. Loan demand edged up at financial institutions. Prices increased mildly at several responding firms, and employment held steady or rose modestly. There was a pickup in reports of pay increases and wage pressures. Industry outlooks were positive, and several were more optimistic than during the prior reporting period.

Prices Most responding firms said prices were stable to up slightly over the reporting period. Fabricated metals producers noted rising prices and input costs, and some food producers said prices rose slightly. Some transportation service firms said prices were up slightly, partly due to rising fuel costs, and an airline respondent noted an increase in ticket prices. Accounting and legal firms expected to raise rates in the near term. Retail and auto contacts said prices were stable, and retailers anticipated normal holiday markdowns. A housing contact noted an increase in builder costs was leading to higher new home prices, although some contacts said home prices were rising at a somewhat slower pace.

Energy prices increased over the reporting period. The price of West Texas Intermediate crude oil rose since the last report, and natural gas prices increased to the highest level since mid-2011. Domestic prices for gasoline and diesel also moved up.

Labor Market Employment levels held steady or increased slightly at most responding firms. Staffing firms said employment levels were up, particularly in professional and technical recruiting areas. Some food, fabricated metals, and transportation manufacturing firms noted continued hiring, and scattered reports of adding workers came from auto dealers and high-tech and accounting firms. Other respondents noted steady employment levels while one high-tech firm made cuts and a transportation services firm continued with an incentivized voluntary buyout to reduce employment levels. Acute labor shortages were reported for auditors, engineers, construction workers and truck drivers.

Reports of upward wage pressure increased. Staffing firms said there was pressure on wages and one began offering signing bonuses. Legal firms cited increased pressure on compensation for corporate associates. Wages rose in metals manufacturing, and petrochemicals producers noted rising wages for plant maintenance and heavy construction as well as several skilled positions. A Houston housing contact said labor shortages were pushing up wages for construction workers.

Manufacturing Reports from manufacturers were mostly positive with a few occurrences of seasonal or weather-related weakness. Construction-related manufacturers reported slow demand in early

December due to poor weather, but business bounced back soon after. Demand for primary metals softened seasonally over the reporting period but was slightly better than what is typical for this time of year. Fabricated metals manufacturers reported very strong demand and said sales were up notably from last year. One contact said his company is able to pick the work they will bid on for the first time in a few years. Energy-related manufacturing increased slightly over the reporting period and demand growth continued for food producers, with sales up about 10 percent from a year ago. Paper producers noted that demand was flat to down from six weeks ago yet was slightly stronger than normal. Contacts across the board said sales outlooks were positive.

High-tech manufacturers said sales have been flat to down slightly since the last report. One contact noted that sales of memory chips continued to grow at a strong pace but that sales of logic devices remained weak. Respondents said they were cautiously optimistic about the outlook for the first half of 2014. Most expect modest growth and some reported that they were more likely to be surprised by strong growth rather than a sharp decline.

Contacts noted that petroleum refinery utilization rates strengthened with the end of the fall maintenance season and rising exports. Chemical production was flat to up depending on the product, and year-over year growth in Gulf Coast chemical production continued to slow.

Retail Sales Retail sales reports were mixed over the past six weeks, ranging from much stronger due to holiday shopping, to a slight decline. Texas' sales performance was in line with or better than the nation, according to national retailers. Gift items were, as normally, strong sellers, while big-ticket items experienced weakness. Contacts were optimistic in their 2014 outlooks.

Automobile sales reports were also mixed. Dealers in the Dallas-Fort Worth area were negatively impacted by the ice storm in early December, but other areas saw slightly improved demand. Year-over-year demand was up. Respondents expected a good finish to 2013 and were optimistic for 2014.

Nonfinancial Services Most nonfinancial services contacts reported stronger demand. Staffing firms said demand increased over the past six weeks, with one contact reporting a significant rise in demand for workers in engineering and technical professions. Another contact noted the highest demand for temporary workers in the past 10 years. Outlooks were positive for the first part of 2014, but some contacts remained concerned about the impact of the Affordable Care Act on business. Accounting firms said demand increased modestly across most lines of business, and contacts noted transactions work was extremely busy. Outlooks remained positive, with a healthy pipeline for future business. Legal firms saw steady growth over the past six weeks. Demand increased slightly in litigation and corporate work, and real estate work continued to grow at a strong pace. Contacts were cautiously optimistic in their outlooks.

Transportation service firms noted mixed demand. Intermodal cargo volumes fell slightly during the reporting period but were even with year-ago levels, and air cargo volumes fell slightly. Railroad

contacts said cargo volumes grew fairly strongly compared with the same period a year earlier as most categories showed positive growth, including petroleum, chemicals and motor vehicles. Small parcel shipping accelerated during the reporting period, with retail trade remaining the strongest driver of growth. Outlooks were mixed; rail volumes are expected to see strong growth heading into 2014, while other contacts expect slower growth.

Airline demand was mostly unchanged. One contact noted broad-based growth across most customer segments while another noted that demand had slowed seasonally but was up from last year. Outlooks were generally more optimistic than six weeks ago.

Construction and Real Estate Single-family new home sales and buyer traffic picked up over the past six weeks, although sales remained below year-ago levels. Houston was an exception, with contacts reporting sales above last year's strong activity. While new home construction slowed in some parts of the District, contacts expect it to increase in early 2014 because of extremely low home inventories. Apartment demand remained steady, and contacts said multi-family construction remained at elevated levels. Some respondents said increases in building costs could slow activity going forward.

Office and industrial leasing activity remained stable, according to contacts. Investment activity slowed, however, and rising rents and high occupancy levels may be keeping some building owners from selling. Outlooks remained positive, and one respondent expects a large increase in commercial construction activity in 2014.

Financial Services Loan demand ticked up for most lines of business over the past six weeks. Auto lending, personal loans, mortgages, and mergers and acquisitions increased slightly, but retail was mostly flat compared with last year. Loan pricing remained competitive, with mortgage rates only rising slightly. Respondents said the quality of loans continued to strengthen, and deposit volumes increased moderately with no corresponding changes in deposit rates. Outlooks were cautiously optimistic as year-end reports showed steady improvement, albeit at a mild pace, and regulatory changes continue to take effect.

Energy Demand for oil-field services increased slightly over the last six weeks. Drilling activity in Texas was particularly strong, both inland and offshore, according to respondents. Shale-driven activity was heating up in the Permian Basin, and that play is a bright spot for growth in 2014 for North America. Contacts expect 2014 energy activity to be better than 2013 but not as good as 2012.

Agriculture Drought conditions in the District continued to ease slightly. The winter wheat crop has had a good start, with crop conditions in better shape than they were a year ago. Severe winter weather in many parts of the state in late November and early December slightly delayed some of the cotton harvest, but the moisture improved soil conditions. Cattle producers continued to benefit from low feed prices and high selling prices, prompting optimism for the industry outlook.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District expanded at a moderate pace during the reporting period of late November through late December. Price inflation was subdued for most final goods and services, and upward wage pressures were modest overall. On balance, holiday retail sales increased relative to the year earlier. Demand for business and consumer services edged up. District manufacturing activity advanced. Output in agricultural and resource-related industries expanded. Demand for residential real estate climbed further, and commercial real estate activity improved. Reports from financial institutions indicated that loan demand increased.

Prices and Wages

Price inflation for most final goods and services remained subdued on net. Contacts noted that some firms expect benefit-related cost increases, which may be passed through to final prices this year. Food industry contacts noted ongoing price gains for shrimp but sustained price decreases for other items, such as beef and coffee. Prices for branded drugs trended up as producers attempted to maximize revenues before facing a potential increase in competition from generic brands. Prices firmed for some construction-related inputs, including lumber, insulation, and asphalt. A few contacts mentioned slight concerns about deflation prospects.

Upward wage pressures were modest overall. Many contacts observed wage gains of 2 to 3 percent in 2013 and projected a similar increase in 2014. However, contacts pointed to above-average wage growth in certain metropolitan areas, particularly those that have experienced robust employment growth in recent months. High-skilled workers in the technology industry experienced relatively strong wage gains. Most contacts indicated that end-of-year bonuses were flat compared with 2012.

Retail Trade and Services

Despite a short holiday shopping season in 2013, many retailers reported that holiday retail sales were up over 2012. However, contacts also noted that the level of promotional activity in 2013 exceeded that in 2012. Traditional brick-and-mortar retailers faced fierce competition from online vendors, and in-

store sales were soft relative to online sales. Sales of home furnishings were robust, but sales of electronics, including televisions, personal computers, and cameras, were weaker than in recent years. Some contacts expect the market for personal computers to stabilize in 2014. While some retail grocers were hesitant to build up inventories prior to the holiday season in anticipation of weak demand, year-over-year sales in most areas exceeded expectations. New auto sales were robust while used auto sales were more moderate. Auto dealers expressed a positive outlook for sales in the year ahead.

Demand for business and consumer services edged up. Strong demand for cloud services supported solid overall business conditions for providers of information technology services. Contacts in the quick-service and casual dining segment of the food service industry noted that sales expanded over the prior year, albeit at a slower pace than last year. Providers of health-care services were uncertain in their outlook for consumer demand. Travel and tourism activity stepped down in Hawaii and remained somewhat weak in Las Vegas.

Manufacturing

District manufacturing activity advanced during the reporting period of late November through late December. Semiconductor producers noted that business conditions improved gradually. Contacts from the commercial aerospace industry maintained a positive outlook based on strong financial performance of firms and further expansion in the backlog of orders for commercial aircraft. Defense-related manufacturers remained cautious, with many firms expecting to lay off workers as a consequence of delays or cutbacks in production contracts related to sequestration. Producers of pharmaceutical products were upbeat about growth prospects in the industry this year. A wood products manufacturer noted that orders and production activity expanded, spurring increased hiring. Relative to the previous reporting period, conditions held steady for steel producers; contacts reported stronger conditions for manufacturing of automobile and aircraft-related inputs than for nonresidential construction inputs. In addition, capacity utilization for steel producers was unchanged.

Agriculture and Resource-related Industries

Output in agricultural and resource-related industries expanded on balance. Demand remained

strong for most crop and livestock products. A healthy corn harvest in the District contributed to a decline in feed costs. Water resources were adequate in most areas. Demand for petroleum and gasoline was strong, with contacts reporting the highest deliveries by refineries in three years. Builders noted that timber supplies were sufficient to meet rising demand. However, in some areas, availability was limited due to seasonal weather factors. Sales of electricity and gas to industrial customers ticked up, and power companies reported ample energy inputs.

Real Estate and Construction

Demand for residential real estate climbed further, and commercial real estate activity improved. Home prices increased further across most of the District. Prices stagnated in selected spots, with some contacts citing seasonal factors. The pace of home sales picked up in a few areas that had seen a drop-off earlier in the year. However, some builders were concerned that further increases in mortgage interest rates would dampen home sales. Some contacts reported strong growth in stand-alone and condominium residential construction, and increases in permit issuance suggest that growth will be sustained in 2014. Public infrastructure projects, as well as a large number of high-rise commercial construction projects, have been announced or are under way in Honolulu, Los Angeles, and the San Francisco Bay Area.

Financial Institutions

Reports from financial institutions suggest that overall loan demand increased. Lending grew robustly in selected areas, and some regions that had experienced declining loan volumes for several years saw a modest uptick. Several contacts also reported an increase in projects in planning stages and expect healthy loan growth this year. However, contacts from other areas reported that businesses remain cautious about the future and desire little credit, perpetuating substantial competition for high-quality commercial borrowers. Contacts continued to observe instances of other financial institutions relaxing their underwriting standards to retain or capture loan business. In the District's Internet and digital media sectors, mergers and acquisitions activity was moderate. The pace of initial public offerings slowed, following a surge of activity earlier last year. Private equity activity was on par with recent months, and venture capital financing in the third quarter of 2013 reached its highest volume since mid-2007.