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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

January 2015

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT

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Summary*

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand during the reporting period of mid-November through late December, with most Districts reporting a “modest” or “moderate” pace of growth. In contrast, the Kansas City District reported only slight growth in December. However, most of their contacts, along with those of several other Districts, expect somewhat faster growth over the coming months. The Dallas District indicated that growth slowed slightly during the reporting period and that several contacts expressed concern about the effect of lower oil prices on the District economy. Consumer spending increased in most Districts, with generally modest year-over-year gains in retail sales. Auto sales showed moderate to strong growth. Travel and tourism picked up during the reporting period. The pace of growth of demand for nonfinancial services varied widely across Districts and across sectors, but appeared to be moderate on balance. Manufacturing activity expanded in most Districts. Single-family residential real estate sales and construction were largely flat on balance across the Districts, while commercial real estate activity expanded. Demand for business and consumer credit grew. Credit quality improved a bit further overall. Agricultural conditions were mixed. Overall demand for energy-related products and services weakened somewhat, while the output of energy-related products increased.

Payrolls in a variety of sectors expanded moderately during the reporting period. Significant wage pressures were largely limited to workers with specialized technical skills. Prices increased slightly, on balance, in most Districts.

Consumer Spending and Tourism

Consumer spending increased in most Districts, with generally modest year-over-year gains in retail sales. Contacts reported slight to modest gains in the Boston, Dallas, Philadelphia, and Cleveland Districts. Sales were solid in Atlanta. Moderate holiday sales growth exceeded expectations in Chicago and met expectations in San Francisco. General merchandise retailers in the New York District indicated that sales were largely sluggish and below plan for the holiday season. The Kansas City District reported that retail sales were lower than a year earlier, with a few retailer contacts noting a drop in sales of high-end products. In contrast, Philadelphia and San Francisco reported that high-end merchandise continued to sell well.

*Prepared at the Federal Reserve Bank of San Francisco and based on information collected on or before January 5, 2015. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Auto sales showed moderate to strong growth on a year-over-year basis, with Philadelphia, Cleveland, and Dallas at the lower end of this range, and Atlanta and Chicago at the higher end. Atlanta auto dealers noted that lower gas prices quickly boosted purchases of larger vehicles. However, some dealers in the St. Louis District reported excess inventories of luxury cars. Kansas City reported that auto sales decreased during the reporting period but remained higher than 12 months earlier. Auto sales were robust in some areas of the San Francisco District, but were somewhat below expectations in other areas.

Travel and tourism picked up during the reporting period. The Boston, New York, Atlanta, and San Francisco Districts reported strong travel and tourism activity. Broadway theaters reported that attendance and revenues were up more than 10 percent from the same period in 2013. Tourism in the Richmond and Kansas City Districts was at or above normal seasonal levels. However, ski resorts in the Philadelphia District struggled to attract visitors in the midst of unseasonably warm weather. Warm December weather in the Minneapolis District also reduced winter tourism there.

Nonfinancial Services

The pace of demand growth for nonfinancial services varied widely across Districts and sectors during the reporting period, but appeared to be moderate on balance. Overall, nonfinancial service-sector firms in the Philadelphia and San Francisco Districts continued to report moderate growth. Most nonfinancial service firms in the Dallas District reported flat or higher demand. Activity at professional business services firms in Minneapolis and Kansas City increased. However, contacts in the Kansas City District expect that pace of growth to slow somewhat in coming months. The Boston District reported that some consulting and advertising firms grew rapidly. Demand for staffing services in the Dallas District was mixed, with some contacts reporting strong increases in demand and others reporting slight decreases. Freight volume in the Cleveland District increased during the reporting period, but contacts stated that freight transportation capacity constraints remained an issue. Freight volume in Atlanta, Kansas City, and Dallas held steady or increased on a year-over-year basis.

Manufacturing

Manufacturing activity expanded in most Districts. Philadelphia reported that manufacturing activity grew at a modest pace during the current reporting period, with a slight slowdown relative to the previous period. Reports regarding new orders and shipments in the Philadelphia District suggested some further slowing moving forward. Manufacturing shipments and new orders grew modestly in the Richmond District. Contacts at factories in the Cleveland District reported that demand increased a bit on balance. Manufacturing activity grew at a moderate pace in Boston, New York, Chicago, and San Francisco. However, a manufacturer in the Boston District indicated that congestion at West Coast ports

had impeded its exports. Activity in the auto industry in the Chicago District remained a source of strength for the region. Atlanta reported that manufacturing activity strengthened overall. Minneapolis and Kansas City reported that manufacturing activity increased only slightly during the reporting period.

Real Estate and Construction

Single-family residential real estate sales and construction were largely flat on balance across the Districts. Sales declined somewhat on a year-over-year basis in the Boston, Cleveland, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts. In the Philadelphia District, year-over-year existing home sales finished lower in November, but pending December sales in some areas were up notably over December 2013. However, builders of new homes in the Philadelphia District reported weak traffic for prospective buyers and fewer contract signings. San Francisco reported that overall home sales picked up in December. Richmond reported a modest increase in housing market activity. Home prices increased modestly, on balance, in the Boston, Philadelphia, Cleveland, Atlanta, Chicago, and Dallas Districts. The Cleveland, Atlanta, Chicago, Minneapolis, and Kansas City Districts all reported slightly slower single-family residential construction activity. However, the pace of single-family home construction increased in some areas of the San Francisco District.

Commercial real estate activity expanded in most Districts. The Philadelphia District reported a modest pace of growth for commercial real estate leasing activity, and Boston reported improving conditions in commercial real estate markets overall. Commercial real estate activity in the Chicago and Kansas City Districts expanded at a moderate pace. The Dallas District noted that office leasing activity remained strong, but one contact noted a slight pullback in demand from oil and gas firms. Demand for apartments in the Dallas District also remained strong. New York City's co-op and condo market showed continued strength in the final quarter of 2014; apartment sales volume was down from the exceptionally high levels of the prior year but still fairly brisk, while selling prices were up moderately. Commercial construction activity increased in most Districts. Activity grew modestly in the Philadelphia District and a bit faster in the Atlanta and Chicago Districts. Atlanta cited the multifamily residential segment as a source of growth, while Chicago credited demand for industrial and office buildings. Commercial builders in the Cleveland District reported a moderate to robust increase for projects in the pipeline. Dallas reported that overall commercial construction was strong. San Francisco reported that multifamily residential construction was strong in many areas of that District and that retail, office, industrial, or infrastructure projects were widespread across that District.

Banking and Finance

Demand for business and consumer credit grew during the reporting period. Overall loan demand increased slightly in the Richmond, Kansas City and Dallas Districts. Philadelphia reported a modest increase in total loan volume. Contacts in the San Francisco District gave mixed reports regarding total loan growth. Demand for business credit in the Cleveland District grew overall during the reporting period. Demand for auto loans in the Chicago District grew moderately, and one contact noted a significant spike in credit card applications.

Credit quality generally remained good, with overall reductions in loan delinquencies. According to the Philadelphia District, most of their financial industry contacts reported continued improvements in their customers' overall credit quality and in their own loan portfolios. However, high rates of severely distressed mortgages persisted in New Jersey and Pennsylvania. Contacts reported little change in their own lending standards. However, several Districts commented that their contacts indicated that stiff competition for high-quality borrowers was leading to lower underwriting standards among lenders more generally.

Agriculture and Natural Resources

Agricultural conditions were mixed during the reporting period. Contacts in the Richmond District reported that agribusiness conditions were better than in the same period a year earlier. The St. Louis District reported that winter wheat harvests are likely to be lower than average, largely reflecting planting delays in Illinois due to wet weather in October. The level of red meat output in the St. Louis District through November was below year-earlier levels, while hog and milk output in the Chicago District was higher than expected during the reporting period. Agricultural lenders in the Minneapolis District expected farm incomes in the fourth quarter of 2014 to come in below the level of the same quarter in 2013. Prices received by farmers in the Minneapolis District in December decreased from the previous year for corn, soybeans, wheat, hay, and milk; prices increased for cattle, hogs, eggs, and poultry. Agricultural growing conditions in the Kansas City District were generally favorable in December, and crop prices rose modestly. Kansas City reported that wheat prices increased modestly amid global supply concerns about limits on Russian grain exports and lower production estimates in Australia. The Dallas District reported that agricultural conditions improved slightly, but drought conditions continued in portions of Texas. Some areas of the Atlanta District saw a moderate improvement in drought conditions. Dairy farm profits in the San Francisco District increased significantly over the past year, but milk futures prices declined recently. Uncertainty regarding future water availability in California slowed new plantings of permanent crops.

Overall demand for energy-related products and services weakened somewhat during the reporting period. The Kansas City and Dallas Districts reported that demand for oilfield services decreased, while the Atlanta District reported that growth in the supply of crude oil and natural gas continued to outpace demand growth. However, contacts in the San Francisco District reported that energy demand from manufacturers was solid. The overall output of energy-related products increased. Natural gas production in the Richmond District increased moderately during the reporting period, and the number of natural gas rigs in the Kansas City District increased. The pace of coal production in the St. Louis District during the reporting period exceeded that of the same period in 2013, and year-to-date coal production in the Cleveland District slightly exceeded prior year levels. The rate of coal production in the Richmond District remained slow during the reporting period. The Cleveland District reported that natural gas extraction activity remained at a high level. Oil drilling activity in the Kansas City District declined, and contacts expect that District's energy sector to slow further in response to lower energy prices.

Employment, Wages, and Prices

Payrolls in a variety of sectors expanded moderately during the reporting period. The Chicago District reported that overall hiring increased, and the Minneapolis District indicated that labor markets continued to tighten. Contacts at staffing firms in the Philadelphia District reported continued moderate increases in hiring for both temporary and permanent positions. Labor demand in the Richmond District increased, and the Atlanta District saw job gains across most sectors. Payrolls increased at a modest pace in the Cleveland District, primarily in banking, freight services, and manufacturing. Manufacturing payrolls also expanded in the Richmond and St. Louis Districts. In contrast, the Boston District reported that manufacturers were not hiring. Reports of hiring in the Dallas District were slightly less widespread than in the previous reporting period, and a few energy firms in that District reported hiring freezes and layoffs.

Significant wage pressures continued to be limited largely to workers with particular technical skills. Indeed, the Philadelphia, Cleveland and Chicago Districts noted that upward wage pressures tended to be limited to experienced and technically-skilled personnel. The Richmond District reported that overall wage pressures were mild during the reporting period and that average wage growth in manufacturing slowed somewhat. The Dallas District noted fewer reports of rising wage pressures than in the previous reporting period. In contrast, Kansas City reported that wage growth accelerated slightly, with many contacts citing labor shortages.

Prices increased slightly, on balance, in most Districts during the reporting period. Overall prices in the Cleveland, Chicago, and Dallas Districts were largely stable. Businesses in the Atlanta District

continued to report little input cost pressure and limited pricing power. Boston indicated that cost pressures varied, with selective price increases planned by some respondents. Contacts in the Philadelphia District reported little change to the steady, slight pace of price increases. Overall prices increased modestly in the Kansas City and San Francisco Districts. The Richmond District reported that retail prices grew at a slower pace than in the previous reporting period, while price inflation in the non-retail service sector increased slightly. The Cleveland District reported scattered indications of declining prices for petroleum-based products and some metals. However, several Districts reported that the cost of a variety of construction materials increased.

FIRST DISTRICT – BOSTON

Sales or revenues are ahead of year-earlier levels according to most First District business contacts in the manufacturing, retail, and advertising and consulting sectors. Commercial real estate markets are steady to improving and most residential real estate markets in the region continue to see price increases and sales declines. With a few exceptions, manufacturers and retailers are not increasing employment, while advertising and consulting firms continue to add modestly to headcounts. Cost pressures vary, with selective price increases planned by several respondents. The 2015 outlook is positive for almost all responding firms.

Retail and Tourism

Retail respondents this round report December or Q4 year-over-year comparable-store sales ranging from a low single digit decrease to an increase of slightly over 7 percent; the decrease reflects extra-strong year-earlier sales as a result of Hurricane Sandy rebuilding. Three of these contacts end their fiscal year on or near December 31, and preliminary analysis shows 2014 total sales down 1 percent to up almost 6 percent compared to 2013. While overall business is good, there has been some softening in the apparel categories; demand for home furnishings and home improvement categories remains strong. One contact characterizes the current daily retail environment as consisting of “higher highs and lower lows.” As in the previous round, some respondents say their prices remain steady, while others cite price changes for some items of plus or minus 1 percent. Based on their own manufacturing costs and vendor prices, one contact says that prices for fall 2015 merchandise will be up about 3 percent overall from fall 2014. Most retail respondents are optimistic about the outlook for 2015, given that business is currently good and consumer sentiment seems more positive, partly because the cost of oil is low.

The Boston area continues to enjoy a strong boost from travel-related spending. Hotel occupancy rates for 2014 are high and combined with higher average room rates, the preliminary estimate is that 2014 hotel revenues will be up almost 10 percent over 2013, which was a record-setting year. Through October, museum attendance was up 14 percent year-over-year, and contacts note many bookings of restaurant and museum space for year-end functions. 2015:Q1 will be stronger than 2014:Q1 due to more corporate meetings and conventions, and hotels have strong advance international bookings. The initial projection for 2015 is a 7 percent increase in hotel revenues, with a slight drop in occupancy rates from record highs compensated for by higher average room rates.

Manufacturing and Related Services

Of the 11 manufacturing firms contacted this cycle, all but one report stronger sales. The exception is a frozen food producer who attributes the weakness to a highly competitive market. Otherwise, many contacts express surprise at how strong demand has been in 2014. For example, one firm says that sales of mail-related devices and services was up in the fourth quarter, reversing years of decline. A manufacturer of testing equipment says sales are strong overall but flat in China, a big change from historical annual increases of 20 percent. By contrast, a toy manufacturer says problems at West Coast ports has hurt sales as they couldn't get some products to market.

Only one of 11 contacts reports serious materials cost pressure; that contact cites sharp increases in chemical prices and says the firm will try to raise their sales prices to offset the increased costs. Four contacts indicate the strengthening dollar is reducing profits or raising costs for them overseas. A

semiconductor manufacturer notes that the rising dollar reduced dollar sales by about 1.2 percent in 2014. No firms report any significant changes in inventories. Most are trying to lower inventory costs; however, a semiconductor maker wants to increase inventories but a tight supply chain makes that difficult.

Only one contacted manufacturer reports lower employment; they closed their direct sales channel which led to a 400-person reduction in headcount. A pharmaceutical firm is adding to New England employment. On the negative side, no firms report significant upward revisions to their hiring plans and five cite no significant headcount increases. A semiconductor manufacturer with sharply higher sales is increasing overtime rather than headcount. Capital expenditures are steady or up at all but one contacted firm; the exception is a publishing company which says it is considering reducing investment to build up a reserve for future investments. Some contacts do report unusually high levels of investment but generally say they are consistent with long-term plans and not due to high frequency changes in demand.

The outlook is positive for all respondent manufacturers, even though three contacts specifically mention Europe as a cause for concern. One semiconductor manufacturer predicts a fall in sales in 2015 but as payback for above-trend growth in 2014.

Selected Business Services

Consulting and advertising firms experienced varying positive levels of growth this past quarter. Growth ranges from moderate—for a high-end economic consulting firm as mortgage-backed securities litigation finally slows—to rapid, for a particularly well-positioned healthcare consulting firm. A second healthcare consulting firm experienced a strong rebound from a slow third quarter, as hospitals figured out their budgets and demanded more help with compliance. A strategy consulting firm reports strong year-over-year growth, but is down modestly from last quarter, as private equity due diligence work returns to historically normal levels. An advertising materials firm continues its trend of growing with the economy, and capped off the year with their strongest quarter in 2014.

Consulting firms are seeing moderate to modest increases in costs, although the bulk of their expenses are in personnel and rent, and wages in these firms are generally increasing in proportion to the level of growth the firm is experiencing. Contacts generally adjust their prices up once a year to pass the majority of costs along, so early 2015 will see most firms' prices for these services increase from 0 percent to 5 percent. An advertising materials firm will have to adjust their cost structure in early 2015 in anticipation of a revision in UPS and FedEx freight calculations, but they are unsure how much resistance they will face as they try to pass this on to customers.

All contacts increased personnel modestly in 2014, and plan on further increases in 2015. Health care and economic analysis contacts cite plenty of slack in labor markets for consultants and analysts at all levels, but say that tech and data analyst positions continue to be competitive to fill, a sentiment echoed by an advertising materials contact who notes continuing difficulty filling e-commerce related positions. A strategy consultant notes decreased interest in strategy consulting by MBAs.

All contacts are bullish on the U.S economy, and are optimistic about business conditions for the next year. The high end economic consultant expects flat to modest growth for next year, but says the firm has been operating beyond capacity, and looks forward to the chance to “absorb” their recent success. Health care consultants have seven-figure deals in the pipeline, and anticipate high growth in 2015, despite general concern over federal budget and regulatory agencies efforts to continue rolling out

the Affordable Care Act. Advertising materials and strategy consulting firms both anticipate continued robust growth for 2015, and cite only potential geopolitical turmoil as a risk factor.

Commercial Real Estate

Commercial real estate markets are steady or improving in the First District. According to contacts in Boston, office leasing fundamentals are unchanged since the last report and improved modestly on average compared with a year ago. Contacts continue to be impressed by the strength of demand for commercial property in Boston among foreign investors, who continue to pay prices that reflect highly optimistic expectations concerning growth in operating income. A regional lender to commercial real estate posted its best year yet in terms of loan volume, despite a very slow fourth quarter. A commercial real estate brokerage in Portland also had a record year in 2014 in terms of total revenues, a year that ended with very strong investment sales activity in the fourth quarter. Also in Portland, construction activity remains robust in the retail, residential, and hospitality sectors, while speculative office construction is not expected to occur for at least another year. In Providence, leasing deals under negotiation promise to boost absorption of office space in the near term, and office leasing fundamentals improved on net in 2014.

Concerning the outlook, Boston contacts expect investment sales activity to remain robust, even if short-term or long-term interest rates increase in 2015. One Boston contact wonders whether growth among the city's tech start-up firms can be sustained in 2015, noting attendant risks for office demand in the Seaport District. The 2015 outlook is favorable for Portland's commercial real estate market and cautiously optimistic for the Providence market.

Residential Real Estate

Closed sales of single family homes declined in November in at least four of the six states in the First District compared to November 2013. Vermont saw an increase in sold homes; contacts in New Hampshire were unavailable. Sales also dipped in the condominium (condo) market in all responding states. Median sales prices rose in November in both single family and condo markets regionwide, with the exceptions of Maine, where prices decreased for single family homes, and Connecticut, where condo prices declined. In Massachusetts, prices have risen year-over-year in 25 of the last 26 months for single family homes and 17 of the last 18 months in the condo market. Contacts in Massachusetts say the driving forces are a shortage of inventory and steady consumer demand. The level of inventory heading into December in Massachusetts is the lowest in a decade, with only a 4.6 month supply for single family homes and a 2.0 month supply in the condo market. November is the 33rd consecutive month of year-over-year inventory decline in the Massachusetts single-family home market and the 49th consecutive decline in the condo market. In at least three other states, inventory declined in both the single family and condo markets; months of supply increased in Rhode Island. Realtors say they are cautiously optimistic because they remain busy; they hope interest rates will remain low and say markets will show further significant improvements only when high paying jobs become more available and new listings provide more options for buyers.

SECOND DISTRICT--NEW YORK

Growth in the Second District's economy has continued at a moderate pace since the last report. Businesses report that cost pressures overall have abated further, though there are some reports of increased wage pressures; selling prices remain generally stable to up slightly. In general, businesses report that conditions have improved somewhat since the last report. Labor market conditions appear to have strengthened further in the final weeks of 2014. Retailers report that holiday season sales were somewhat disappointing and little changed from 2013 levels, though sales picked up toward the latter part of December. Auto dealers characterize sales as sluggish in November, though both picked up, to varying degrees, in December. Tourism remained fairly robust in late 2014, and consumer confidence climbed to a multi-year high. Housing markets were mixed but, on balance, somewhat stronger in the final weeks of 2014; multi-family construction has been fairly brisk. Office markets have been generally steady, while the market for industrial space has strengthened a bit. Finally, banks report increased loan demand—particularly from the commercial sector—as well as narrowing loan spreads; delinquency rates continued to decline for commercial loans and mortgages, but picked up for residential mortgages.

Consumer Spending

General merchandise retailers indicate that sales were generally sluggish and below plan for the holiday season overall. However, most retail contacts noted that, while November and early December were sluggish, sales did pick up toward the latter part of the month, especially in the week after Christmas. The mid-November snowstorm that hit large parts of metropolitan Buffalo shut down many retailers for a number of days; in general, contacts in upstate New York note that sales picked up somewhat in December (especially toward the end of the month) but were little changed from the prior holiday season. Similarly, two major retail chains report that holiday-season sales across the region were below plan and little changed from 2013 levels, though both noted that sales picked up toward the latter part of December—especially after Christmas. Overall, prices were

described as little changed from a year earlier; some contacts report heavier discounting this past holiday season than in 2013, while others characterize it as about the same. Post-holiday inventories are generally said to be in fairly good shape.

Reports from auto dealers across upstate New York indicate that sales were sluggish in November but picked up somewhat in December. Rochester-area dealers note that new vehicle sales weakened substantially in November but rebounded in early December, while used car sales improved. Buffalo-area dealers paint a more mixed picture: new auto sales have not rebounded substantially from November's weather-depressed levels, though sales of used vehicles have picked up somewhat. Auto dealers in both areas note that both wholesale and retail credit conditions remain favorable.

Consumer confidence in the region climbed in December, based on the Conference Board's survey of residents in the region. Confidence rose to a 10-month high in New York State and to a more than one-year high in the broader Middle Atlantic region (NY, NJ, PA). Tourism continued to be strong in late 2014. Broadway theaters report that attendance and revenues accelerated in December, and were up more than 10 percent from comparable 2013 levels. Manhattan hotels also report that business has continued to be brisk toward the end of the year.

Construction and Real Estate

The District's housing markets have shown signs of picking up in the closing weeks of 2014. Real estate contacts in western New York State indicate that the housing market has gained some momentum in the final months of 2014, particularly for trade-ups to mid-priced homes. New York City's co-op and condo market showed continued strength in the final quarter of 2014: apartment sales volume was down from the exceptionally high levels of a year ago but still fairly brisk, while selling prices were up moderately.

New York City's residential rental market has been mixed: Rents in Manhattan and Brooklyn have picked up somewhat and are up roughly 5 percent from a year ago, while Queens

rents have been fairly steady. Residential rents elsewhere around the New York City metro area are reported to be up 4-6 percent from a year ago, while rents across upstate New York are up about 2 percent. Rental vacancy rates have risen slightly across the District, though they remain fairly low, especially in New York City. Multi-family construction remained fairly robust throughout most of the District in the fourth quarter.

Commercial real estate markets were mixed but, on balance, somewhat stronger in the fourth quarter. In New York City, office availability rates continue to drift down to new multi-year lows, while asking rents are running 6-8 percent higher than a year ago. Availability rates also edged down in northern New Jersey but edged up in Long Island and across upstate New York. Rents outside New York City are generally little changed from a year earlier. Office construction across the District continues to be sparse at best. Industrial markets, however, mostly improved in the fourth quarter, as industrial availability rates continued to trend down in Long Island and northern New Jersey, while asking rents rose moderately.

Other Business Activity

Manufacturing contacts across the District generally report that conditions improved somewhat in late 2014. Moreover, a survey of New York City area purchasing managers points to an acceleration in business activity in December; and a trucking industry expert reports that business conditions have improved substantially in late 2014, reflecting both strong demand and falling diesel prices; truck drivers are in high demand.

The job market overall showed further signs of strengthening in December, though contacts noted that this is a difficult time of year to gauge the market. Still, one employment agency notes that hiring activity has remained unusually robust across a range of industry sectors during this typically slow month. Another employment agency reports more of a typical seasonal lull but notes that more job candidates seem to be receiving multiple offers. Both contacts note increasing upward

pressure on wages. Various contacts mention particularly strong demand for workers in information technology, human resources, customer service and trucking.

Financial Developments

Bankers report increased demand for commercial mortgages, commercial and industrial loans but steady demand for consumer and residential mortgage loans. Bankers note a continued decrease in demand for refinancing. Banks report that credit standards were mostly unchanged though there were slight indications of tightening in consumer loans and commercial mortgages. Respondents report a slight decrease in spreads of loan rates over cost of funds—mainly on consumer, as well as commercial and industrial loans. Respondents indicate no change in the average deposit rate, on balance. Finally, bankers report continued decreases in delinquency rates on commercial mortgages and commercial and industrial loans, but an uptick in delinquencies for residential mortgages and some leveling off in rates on consumer loans.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during this current Beige Book period, with very few changes in the growth rates of specific sectors. Manufacturers reported modest growth after a somewhat faster pace during the previous period. Auto dealers, staffing firms, and other general service-sector firms continued to report a moderate pace of growth. Nonauto retailers continued to report modest growth, while tourism activity appears to have slowed, with mixed reports coming from contacts at different destinations. Residential builders continued to report a slight decline in contract sales of new homes. Overall, brokers noted little change in existing home sales (sales of existing homes had risen slightly during the prior period). The commercial real estate sectors continued to report modest growth for construction and for leasing of existing commercial properties.

Lending volumes continued to grow at a modest pace, and credit quality continued to improve; however, more contacts expressed concern about loosening underwriting standards. As in the previous Beige Book, contacts reported slight increases in wages, home prices, and general price levels. Contacts continued to anticipate moderate growth of economic activity over the next six months.

Manufacturing. Third District manufacturers reported that current activity resumed growing at a modest pace after rising more briskly during the previous Beige Book period. Reports of new orders and shipments also suggested continued growth, but with less vigor. About twice as many firms reported decreases in new orders and shipments compared with last period. Gains in activity appeared to be stronger among makers of primary metals, chemicals, and paper products; activity appeared weaker among makers of lumber and wood, rubber, and plastic products. Contacts continued to report that stronger demand emanated from the automotive and commercial aviation sectors.

Expectations of positive growth during the next six months remained at historically elevated levels and were broad-based. Nearly two-thirds of the Third District manufacturing contacts reported positive expectations for growth. Overall, about one-third of the firms' contacts also continued to report that they expect to increase employment levels and capital expenditures. Only 10 percent or fewer of manufacturing contacts expected a decrease in employment, capital expenditures, or general activity.

Retail. Third District contacts have continued to report modest growth in nonauto retail sales since the prior Beige Book period. An operator of area malls reported that sales were better in 2014 than they were in 2013, but they were not spectacular. Higher-end merchandise continued to sell strongly, as it has for much of the recovery. Although contacts anticipate that

retail sales will improve in 2015, one contact cautioned that more retail bankruptcies may occur in early 2015 due to shifting trends in tastes.

Auto dealers continued to report moderate growth in sales year over year. A Pennsylvania contact described sales levels throughout the state as strong overall through two-thirds of December despite the typical seasonal slowdown. Statewide sales in New Jersey were steady between October and November; however, the year-over-year change was flat in October and up 8 percent in November. Auto dealers remain bullish for 2015, and low oil prices are shifting purchases from cars to trucks.

Finance. Third District financial firms have continued to report modest increases in total loan volume since the previous Beige Book. Volumes increased rapidly for credit card lines in a typical seasonal shift. Moderate growth was reported for commercial and industrial lending, while modest growth was reported in several loan segments, including commercial real estate and some consumer credit lines, such as auto loans. Only slight growth was reported for mortgages and home equity lines of credit. Most contacts reported continued improvements in their customers' credit quality and in their own loan portfolios. However, most contacts also warned that underwriting standards have loosened. A mortgage servicing contact expressed concern about loan performance in 2015 and 2016 even as the rate of mortgage delinquencies appear to be bottoming out in most states. New Jersey and Pennsylvania remain exceptions with persistently high rates of severely distressed mortgages. Contacts remained optimistic about growth prospects for the nation's economy and are especially bullish about the potential impact of low-cost natural gas on Pennsylvania's industrial prospects.

Real Estate and Construction. Overall, Third District homebuilders continued to report weak traffic and declining numbers of contract signings. One builder reported more potential buyers and was more optimistic for December than he was in the prior two months. Builders reported ongoing price pressures from contractors for their labor costs and continued difficulty attracting first-time homebuyers out of the rental market. Builders expect that 2015 will be a better year than 2014, but they expressed a range of opinions on whether household formations will return to the prerecession rate or settle into a new, lower normal trend. Brokers reported that existing home sales finished lower in November on a year-over-year basis; however, a broker compiling data on a 10-county Philadelphia region reported that pending sales were up in double digits through mid-December. Contacts continued to report slight overall increases in home prices. Brokers are generally more optimistic for a return to growth in 2015.

Construction and leasing continued at a modest pace, according to nonresidential real estate contacts. Demand continued for new industrial/warehouse projects and for projects in Center City Philadelphia and some outlying suburbs. Contacts from architecture and engineering firms reported a significant increase in bids emerging for new projects, while competition from

other firms has begun to abate. The falling competition was attributed to increased demand that has begun to stretch the capacity of some firms. Contacts continued to report incremental improvements in leasing activity in downtown and suburban Philadelphia, especially for office, residential, and retail spaces in Center City and select suburban office markets. The office space demand primarily represents a shift in the desired type of office space, rather than growth of office employment. Still, contacts are optimistic for continued growth of both new construction and leasing activity in 2015.

Services. Third District service-sector firms have continued to report moderate growth in activity since the previous Beige Book. Nearly half of all firms reported increases in new orders and sales. Two large national firms reported ongoing growth that was meeting expectations for the fourth quarter despite some headwinds from shifting consumer trends. Staffing contacts in eastern and central Pennsylvania continued to report moderate increases in hiring for both temporary and permanent positions. Staffing requests continued to flow in on the Monday before Christmas. Christmas week is typically slower, as staffing orders slump to their seasonal low during the week of New Year's. Staffing firms remained very positive for growth prospects in 2015. Overall, about three-fourths of all service-sector contacts reported expectations that growth trends for their firms will remain positive over the next six months; none anticipated declines.

Third District tourist areas reported mixed conditions for the early winter months. Several larger ski resorts have established a two-foot base of snow after a pre-Thanksgiving snowstorm staked them to an early season. However, unseasonably warm weather caused all the resorts to struggle to maintain good snow conditions and to attract winter tourists. The warmer weather and special events have kept the shore destinations reasonably busy during their off-season. However, many contacts remain concerned about the long-term impacts of casino closings in Atlantic City. Casino revenues were down about 10 percent in November year over year.

Prices and Wages. Overall, Third District contacts reported little change to the steady, slight pace of price level increases that was seen in other recent Beige Book periods. Manufacturing contacts have reported little change in their prices paid and prices received since the prior period, with about two to three times more firms expecting increases versus decreases. Among nonmanufacturing firms, contacts have reported fewer increases and more decreases of prices paid and prices received since the prior period, with little net difference. Manufacturers and construction firms continued to note wage pressures to attract skilled workers. Other contacts, including those from staffing firms, continued to note little significant change in wage pressures. Most contacts expect lower energy prices to broadly boost consumer spending, with more upside potential in Pennsylvania than downside risk to the state's energy-producing sectors.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District expanded at a modest 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. Manufacturers reported that business activity increased at a modest rate. Demand for nonresidential construction strengthened, while the residential market was stable. Retail spending during the holiday shopping season was slightly above year-ago levels, and year-to-date auto sales posted moderate gains compared to 2013. District coal production is up slightly year-over-year, while shale gas activity remains at a high level. Freight shipments were strong, but capacity issues are limiting growth. The demand for business and consumer credit moved higher.

Payrolls increased at a modest pace, primarily in banking, freight services, and manufacturing. Staffing firms reported that the number of job openings and placements in energy and manufacturing companies had risen slightly. Upward pressure on wages is limited to experienced and technically skilled personnel across industry sectors. Overall, input and finished goods prices were stable. There were scattered reports of declining prices for metals and petroleum-based products and rising prices for some building materials.

Manufacturing. Factory representatives reported that demand ranged from stable to showing a moderate improvement during the past six weeks. Any declines in orders were attributed to seasonal factors. Year-to-date results were generally better compared to those in 2013; several producers cited growth in the construction, shale gas, and auto industries as contributing to higher revenues. Our contacts are fairly optimistic and expect moderate to strong growth in 2015, though some expressed concern about weakening foreign economies and a decline in the price of oil. The seasonal slowdown in steel shipments that typically begins in November was slightly deeper than expected. A few contacts believe that customers are waiting for steel prices to stabilize at a lower level. Due to pricing and market uncertainties, some steel producers are reducing their finished goods inventory. Year-to-date auto production through November at District assembly plants was more than 4 percent higher compared to the same period in 2013.

A large majority of factory representatives reported that capital spending in fiscal year 2015 will be moderately higher than prior-year levels, with monies being allocated mainly for new IT and capital equipment. Raw material prices were stable or lower during the past six weeks; declines were seen in steel, copper, and petroleum-based products. Finished goods prices held steady. New hiring continued at a modest pace, mainly in production and sales. Wage pressures are limited to high-skilled production workers, engineering, IT, and computer system personnel.

Real Estate and Construction. Year-to-date sales through November of new and existing single-family homes were slightly below levels seen in 2013, while the average sales price was moderately higher. New-home contracts were mainly in the move-up price-point categories. Since our last report, single-family construction starts were down slightly, while the

number of single and multifamily building permits issued moved mildly higher. Homebuilders pointed to a scarcity of lots in strong markets and stringent mortgage standards as factors that are constraining sales activity. The outlook for the new year is best described as cautious; while most respondents are expecting some growth, none are projecting robust activity. A majority of builders announced price increases averaging 3 percent, which will go into effect at the start of 2015. These increases will mainly cover rising costs, including higher rates from subcontractors.

Nonresidential builders reported pipeline activity generally ranging from moderate to robust, and they indicated that the level of activity has increased relative to a year ago. One builder commented that his customers feel more certain about risk-taking on high-value projects. For the most part, contractors are satisfied with their backlogs going into 2015. Market demand is broad based, although demand from manufacturers, healthcare providers, and higher education is strongest. There has also been a pickup in requests for commercial space. Builders are optimistic in their outlook for 2015. We heard a few comments about widening margins and growing opportunities for developing spec buildings. Several contractors reported that they are increasing their capital budgets for 2015, mainly to purchase heavy machinery.

Building materials prices were stable other than for drywall and concrete, which have increased. The diesel fuel surcharge is being reduced or eliminated. New hiring has diminished appreciably since early November due to the onset of winter weather. Several contractors reported that they are starting seasonal layoffs. Unless business conditions deteriorate, hiring will resume later in the first quarter. Wage pressures are limited to craft workers and more experienced engineers and project managers. Subcontractors are pushing through rate increases at a faster pace than general contractors had anticipated; these increases are needed to cover rising costs, including for labor and to widen margins.

Consumer Spending. Retailers reported that revenues from this year's holiday shopping season were slightly higher than those in 2013. Product lines in highest demand included apparel, electronics, and physical fitness. Retailers continued to run a significant number of promotions, which for some store chains is narrowing profit margins. Reports on the impact of lower gasoline prices were mixed. Many of our contacts were uncertain about sales expectations for the first quarter of 2015. Those making projections believe that same-store revenues will be only mildly higher year-over-year. Vendor and shelf prices held steady, other than anticipated increases for dairy products. Capital spending for 2014 was in-line with budgeted amounts. Capital plans for fiscal year 2015 are still in process, but most retailers are projecting little change in budgeted amounts. Hiring is limited to new store openings.

Year-to-date sales through November of new motor vehicles were about 5 percent higher compared to the same time period in 2013. Across many regions of the District, the share of SUV and truck sales was at its highest level of the year during November. Luxury vehicle purchases also picked up. These strong sales were mainly attributed to declining gasoline prices. Our contacts are satisfied with current inventory. Looking at 2015, dealers anticipate that the year-over-year change in unit volume will be positive, but increases will not be as strong as in

2014. There is some uncertainty as to the impact of sustained lower gasoline prices on new motor vehicle transactions. Little change in payrolls is expected during the winter months. Dealers continue to have difficulty finding skilled labor, especially technicians.

Banking. Bankers reported that demand for business credit exhibited modest to moderate growth during the past six weeks. While demand was described as broad based, it was strongest for commercial real estate and commercial and industrial loans. Consumer credit demand moved slightly higher, especially for auto loans and home equity products. Households are making marginally greater use of credit cards. Though the pricing environment remains competitive, interest rates were mainly steady for business and consumer credit and for residential mortgages. Many of our respondents noted that activity in their residential mortgage business has declined considerably. One banker reported that nonbank entities seem to be the biggest source of growth in residential mortgages and that it is becoming less and less a part of his business. Delinquency rates were stable or improving across loan categories. No changes were made to loan-application standards since the last report. Core deposits were described as good or strong and growing. A majority of bankers indicated that payrolls are rising at a slight pace, especially in the areas of commercial lending, risk management, and regulatory compliance. A few reported that they are beginning to feel some wage pressure and expect that it will intensify in 2015.

Energy. Year-to-date coal production across the District is slightly above prior-year levels. Output is projected to increase in Pennsylvania and northern West Virginia with no material change expected in eastern Kentucky and Ohio. Low natural gas prices have been reducing demand for thermal coals domestically. Spot prices for steam and metallurgical coal have declined since our last report. Activity in the Marcellus and Utica shale formations remains at a high level. However, a sustained decline in oil and gas prices may pose some downside risk to drilling and production, and it is uncertain what the effect will be on hiring and wages in the near term. Overall pricing for materials and equipment is down slightly during the past six weeks. Capital spending is projected to decline in 2015.

Freight Transportation. Freight volume increased since our last report, with demand being described as broad based. Profit margins improved due to lower diesel fuel prices. Although capacity constraints remain an issue industry-wide, carriers are encouraged by amendments to the hours-of-service rules that were included in the recently passed federal omnibus bill. Our contacts are optimistic in their outlook and they believe that strong growth trends should continue into 2015. A pickup in the number of consolidations within the freight industry is expected to continue. Little change in prices for parts and tires was reported. Capital spending in 2015 is projected to be strong, with monies being allocated for replacement and expansion. Hiring drivers is an ongoing process and industry executives agree that their ability to attract and retain truck drivers is critical to their ability to expand capacity.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy expanded modestly since our previous report. Manufacturing activity improved with somewhat higher shipments and new orders. Retail sales grew moderately, while non-retail services revenues were little changed. Tourism was at or above normal seasonal levels. In the finance sector, loan demand rose slightly. Real estate activity increased at a mild pace. District agribusiness contacts reported a seasonal slowing, although business conditions are better than last year at this time. Coal production remained at low levels. Natural gas production increased moderately in recent weeks and prices decreased slightly. Labor demand rose since our previous report, led by growth in the Carolinas. According to our most recent surveys, manufacturing employment grew at a slightly faster pace while average wage growth slowed somewhat. In the service sector, the rate of hiring moderated from the strong pace of a month earlier and wages generally rose modestly. Price increases in raw materials and finished goods slowed in recent weeks. Retail prices also grew at a slower pace. In contrast, prices in the non-retail service sector rose slightly faster.

Manufacturing. Manufacturing activity advanced, but responses were more uneven than in the previous report. Shipments and new orders grew modestly, and expectations for the months ahead remained optimistic. Inventories of finished goods rose at a faster pace, and growth in inventories of raw materials slowed. A source in West Virginia reported that some smaller manufacturers that supply materials to the natural gas industry were seeing strong growth. A plastic resin and synthetic fiber manufacturer in South Carolina stated that his company was experiencing solid growth in sales across the company's various lines including aerospace, utilities, industrial materials, medical equipment, and telecommunications. On the other hand, a flooring manufacturer in West Virginia reported that production slowed in the fourth quarter and sales were below a year ago. Manufacturers of primary metals, transportation equipment, electrical equipment, and machinery reported a slight slowdown in business since the previous report, but they expected better conditions in the months ahead. Prices of raw materials and finished goods rose at a slightly slower pace in recent weeks.

Ports. Officials at the District's major ports reported strong growth in the volume of container traffic since the previous Beige Book. The volume of imported loaded containers exceeded the exported volume. According to one port official, imports of appliances, apparel, and footwear increased more quickly. Auto imports remained solid at another port, and imports of auto parts remained strong at all ports. Containerized grains and soybeans, as well as dry animal proteins and dried distiller grains (from production of ethanol), continued to lead exports. Exports of auto parts and plastic resins grew more rapidly in recent weeks. Previously reported railroad issues have eased somewhat. Port officials expressed concern that the strong dollar was affecting demand for U.S. exports.

Retail. Retail sales grew moderately since our previous report. The manager at a Virginia discount chain store said that holiday sales of electronics were strong, but that people were “still very conservative” in purchasing other goods. Another discounter commented that holiday business was slightly slower than typical. The manager at a store offering a lay-away plan reported that the program did well this year but that an unusually large amount of goods were returned to stock because customers were unable to complete sales. In West Virginia, a sporting goods store manager commented that online shopping had eroded his in-store sales. A central Virginia retail representative reported that advertising encouraging consumers to buy from local small retailers had boosted November sales revenues, but that many had a decline in sales in December. A wholesale foods executive commented that lower fuel prices reduced costs, helping to offset the effect of rising protein prices. Dealers stated that sales of autos and light trucks remained strong since the last report. Retail prices grew at a slower pace in recent weeks.

Services. Services firms’ revenues were little changed since the previous Beige Book. Professional, scientific, and technical firms reported that demand was unchanged from previously reported levels; hospitals also reported flat demand. Trucking executives reported a normal seasonal surge in demand and continuing difficulty finding drivers. Prices in the service sector rose slightly faster.

Tourism was at or above normal seasonal levels in the weeks since our prior report. A Baltimore hotel manager said that advance bookings were at expected levels, while an executive at a resort in the North Carolina mountains reported that the entire fourth quarter was very strong and advance bookings for 2015 were ahead of last year’s pace. In Virginia and South Carolina, bookings were up, and a South Carolina hotelier commented that people were spending more frequently on holiday parties. A contact on the outer banks of North Carolina stated that advance bookings were at typical levels, and current tourist activity was “humming along.” Rental rates and hotel rates were generally unchanged.

Finance. Loan demand rose slightly since our most recent report. Residential mortgage demand was mostly unchanged in the District, although there was some increased demand in Virginia and North Carolina. A lender in Virginia said that the favorable rate environment had raised residential mortgage demand and generated some growth in refinance lending. Commercial and industrial lending was higher in the Carolinas, Virginia, and West Virginia. Lenders in North Carolina and Virginia said that pipelines are growing and that most activity is new and not taking away from other banks. Commercial lenders in South Carolina and Virginia noted an uptick in construction lending for multi-family projects. Demand for credit and capital investments also rose in South Carolina, while mergers and acquisitions picked up in West Virginia. In contrast, a lender in Maryland said that banks had a lot of money to lend but not enough demand. Competition remained strong among lenders, pulling rates slightly lower and tightening margins for banks. There were some reports of lower credit standards. Credit quality improved slightly according to contacts in Virginia and was unchanged elsewhere in the District.

Real Estate. District housing market activity continued to increase at a modest pace since the previous report. However, Realtors in some locations reported slower buyer traffic and a slight decrease in housing inventories. Average sale prices and average days on the market varied. A Maryland contact reported gradual improvement in home sales state-wide, and higher average home prices. A broker in Richmond stated that cash buyers remained very active; he also reported some recent higher-end home sales aided by lower interest rates. Single-family housing construction increased slightly in the Carolinas and Virginia since the previous report. A South Carolina residential builder stated that the high-end market is bouncing back, and that new home prices increased slightly. Multifamily construction and leasing remained active throughout the District.

Activity in commercial real estate markets increased modestly since the previous report. District Realtors reported slight increases in the amount of retail leasing activity, but slower leasing activity in the office sector. Growth in rental rates varied by region and submarket. Commercial sales increased and prices rose slightly. Sales of retail space improved in Richmond, Virginia Beach, and Washington. A broker in Virginia Beach commented that the retail sector continued to firm up, with retail rental rate growth and strengthening retail construction. A Charleston, West Virginia contact stated that office vacancy rates remained high and market activity was unchanged since the previous report. On the other hand, a Columbia, South Carolina broker said that the office sector has been “unreal” and noted an increase in rental rates. A Virginia condominium developer reported an increase in new construction. Additionally, a Realtor in Charlotte said that previously announced office construction projects “are coming out of the ground” and there is a lot of business relocation activity.

Agriculture and Natural Resources. District agribusiness contacts reported seasonal slowing since our previous Beige Book, although business conditions are better than last year at this time. Several farmers stated that planting and harvesting were finished for the year, although harvesting completion dates were later than usual. Farmers in South Carolina and Virginia reported no change in input prices in the past six weeks and said that output prices were generally unchanged.

Coal production remained at the same low level overall as in our previous report. A contact stated that West Virginia coal production levels are down slightly year-over-year, except in the northern part of the state, where production increased modestly in the last six weeks. Coal prices are unchanged since our last report. Natural gas production increased moderately in recent weeks, and prices decreased slightly.

Labor Markets. Labor demand rose since our previous report, led by growth in the Carolinas. Reports from Asheville and Raleigh, North Carolina were particularly strong, with new hiring focused in software, professional and business services, manufacturing, and hospitality. Modest increases in labor demand were reported in Maryland and West Virginia, mainly for cybersecurity experts in Maryland and for workers in manufacturing and natural gas in West Virginia. Demand for labor in Virginia was little

changed outside of seasonal increases. Contacts throughout the District continued to cite difficulties finding skilled workers in manufacturing, health care, IT, truck driving, and hospitality (especially in the culinary field). On balance, wage pressures were minimal, with a few industry-specific exceptions. According to our most recent surveys, manufacturing employment grew at a slightly faster pace while average wage growth slowed somewhat. In the service sector, the rate of hiring moderated from the strong pace of a month earlier. Average wages in the service sector generally rose modestly.

SIXTH DISTRICT – ATLANTA

Business contacts indicated that economic activity continued to improve for the Sixth District since the previous report. The outlook among the majority of contacts was positive with most expecting higher growth for early 2015.

District merchants noted holiday sales levels were solid for November and early reports for December indicate much the same. Automobile sales continued at a solid pace. The hospitality sector reported a strong holiday season, continuing the level of activity that it had been experiencing all year long. Residential housing brokers and builders noted that home sales growth was flat to slightly down from the previous month while home prices continued to appreciate. Existing home inventories were flat from last month and new home inventories were flat to slightly up. Commercial contractors described construction activity as improving, with the multifamily segment of the market noted as particularly strong. Manufacturers indicated that overall activity strengthened since the previous report. On balance, banking contacts noted that loan demand improved. The District continued to experience job gains across most sectors. Similar to the previous report, contacts noted only mild cost pressures.

Consumer Spending and Tourism. District retail contacts appeared upbeat heading into the holiday season. While sales on Black Friday were adequate, merchants indicated that pre-Thanksgiving discounting, online shopping, and stores opening on Thanksgiving Day, helped November end with solid results. Early reports for December appeared strong and merchants expect the additional day of shopping between Thanksgiving and Christmas to bode well for year-end results. Motor vehicles sales were robust as demand continued to grow. District auto dealers noted that customers were reacting immediately to lower gasoline prices by purchasing new, larger vehicles.

Reports on tourism and business travel remained positive from late November through December. Tourism industry contacts reported a strong holiday season with high occupancy numbers at hotels and resorts. Hospitality contacts continued to report additional capital expenditures on tourism infrastructure as well as strong advanced bookings for the first two quarters of 2015 in the hotel and conference segments.

Real Estate and Construction. Most District brokers indicated that home sales fell short of their plan for the period. Many contacts noted that home sales were flat or down slightly

compared with a month earlier. Brokers continued to report modest home price appreciation. The majority of brokers indicated that inventory levels remained flat from the prior month's level and that buyer traffic was flat to down over the same period. Brokers indicated that they expect home sales to remain flat or increase slightly over the next three months.

Incoming signals from District homebuilders were relatively unchanged since the last report. Contacts characterized construction activity as flat from the previous month and new home sales were flat to down slightly over the same period. Most builders indicated that the inventory of unsold homes was flat to slightly up compared with a month earlier. Modest home price appreciation continued to be reported. Builders' outlook for new home sales and construction activity over the next three months was fairly positive, with most indicating that they expect activity to be flat to slightly up.

Commercial real estate brokers across the District continued to report improving demand, though they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Commercial contractors noted continued strength in apartment construction and that the pace of nonresidential construction activity continued to increase modestly. The outlook among District commercial real estate contacts remains fairly optimistic.

Manufacturing and Transportation. District manufacturers indicated that activity was solid, as the strong growth noted in the previous period continued. New orders and production remained at healthy levels, and contacts reported notable increases in employment. Supplier delivery times slowed and commodity prices increased modestly. Optimism among manufacturers rose notably since the last reporting period, with over half of contacts expecting productions levels to increase over the next three to six months.

District transportation contacts reported slightly higher activity from late November through December compared with year earlier levels. Trucking and logistics contacts noted significant increases in demand; however, capacity constraints due to a lack of drivers continued to hinder growth. Railroad contacts reported double-digit increases in shipments of grain, petroleum products, metallic ores, and military, machinery and transportation equipment. However, total rail traffic was flat compared with the previous reporting period. Maritime shippers cited significant capital expenditures in vessel capacity, including barges and petroleum tankers, as well as increased investments in LNG-powered ships. District ports experienced

significant growth in container traffic compared with the same period last year. The majority of transportation contacts expect higher growth in 2015.

Banking and Finance. Credit conditions were largely unchanged from the previous reporting period. Contacts reported large businesses had easy access to credit; small businesses were experiencing small improvements in their ability to access credit. Loan demand increased among most lines of business. Loan pricing and structure remained competitive.

Employment and Prices. Businesses reported that the reluctance to hire was waning somewhat in the face of continued increases in demand. In November, Sixth District states added 49,500 net jobs. Job gains were fairly widespread across sectors, though retail contributed the most jobs. The unemployment rate in the Sixth District declined 0.2 percentage point to 6.4 percent in November. Reports of high turnover rates were more prevalent since the previous report, with many firms offering improved benefits, notably health care, as an employee retention device. In addition, the conversion of part-time workers to full-time accelerated as businesses tried to meet increased product demand and boost employee loyalty.

Businesses continued to cite little input cost pressure and limited pricing power, with some notable exceptions in commercial construction, transportation, real estate, and food. The Atlanta Fed's December survey of business inflation expectations indicated that firms' year ahead unit cost expectations were essentially unchanged at 1.9 percent. Contacts also expressed a slight shift in their assessment of labor cost pressures over the coming year with a growing number of firms reporting acceleration in compensation budgets for 2015. Some firms conveyed they were increasing starting pay or planning to move above minimum wage in an effort to attract and retain their workforce. Conversely, several employers also reported that where possible, they were holding down base pay and instead adding benefits or performance bonuses.

Natural Resources and Agriculture. Supply of crude oil and natural gas continued to outpace demand, leading to high inventory levels across the Gulf Coast. Industry contacts in the energy sector reported that the downturn in the price of oil has influenced their outlook and strategic planning for 2015, including a heightened focus on cost management, more prudent investments, and faster, more efficient drilling techniques. Exploration and production firms shared plans to continue drilling operations across the Gulf Coast and in Louisiana in 2015, though they intend to approach projects more cautiously. The same goes for oil service

companies in the region, which are evaluating cost reduction strategies if low energy prices are sustained.

While the District experienced varying degrees of drought ranging from abnormally dry conditions to a few areas of severe drought, some areas of Alabama, Georgia, and the Florida panhandle saw some moderate improvement in drought conditions. Protein producers that rely on corn for feed reported improved margins because of continuing low corn prices. The most recent cotton and orange crop forecasts were slightly higher than last season's production.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District remained moderate in December, and contacts expected growth to continue at a similar pace in 2015. Consumer spending, business spending, and manufacturing production all increased moderately, while construction and real estate activity increased modestly. Credit conditions were little changed on balance. Prices were also little changed with the exception of energy and some agricultural commodities.

Consumer spending. Growth in consumer spending remained moderate in December. Overall, holiday sales slightly exceeded expectations as consumers benefitted from generous promotions, advantageous weather conditions, and lower gasoline prices. Growth was robust for apparel, footwear, hobby items, specialty gifts, sporting goods, and toys, but was slower for the food and beverage sectors. Light vehicle sales increased steadily in recent weeks. Auto dealers reported that accommodative financing terms continued to spur sales and that lower gas prices were leading consumers to shift purchases toward trucks and SUVs and away from cars. In general, retailers expect sales growth to remain moderate in 2015, supported by the improving job market and the prospect of continued lower energy prices.

Business spending. Business spending also continued to grow at a moderate pace in December. Most retailers reported comfortable inventory levels, though some noted that stocks of winter-related items were slightly elevated because of the mild weather in the early winter. Inventories also were at comfortable levels for most manufacturers, though one contact noted that inventories of farm tractors were elevated, leading agricultural equipment manufacturers to offer special financing and extended warranty programs to lure buyers. Capital expenditures and spending plans continued to rise. Outlays were aimed primarily at replacing industrial and IT equipment, though many contacts also reported spending for capacity expansion. Hiring increased and contacts expected job growth to continue in the coming year. There was ongoing strong demand for skilled workers, particularly for those in professional and technical occupations and skilled manufacturing and building trades. In addition, a staffing firm reported an increase in demand for its services from small- and medium-sized businesses.

Construction and real estate. Construction and real estate activity increased modestly in December. Demand for residential construction was little changed in both the single- and

multi-family markets. Although homebuilders were optimistic about the overall economy, many were concerned that the housing sector would continue to lag in 2015. Home prices and residential rents both increased, while the pace of home sales slowed. Real estate contacts forecasted flat or modest growth in home sales in 2015. Nonresidential construction increased, driven in large part by demand for industrial and office buildings. Commercial real estate activity expanded broadly—vacancies ticked down, rents rose, and leasing of industrial buildings, office space, and retail space all increased.

Manufacturing. Manufacturing continued to grow at a moderate pace in December. Activity in the auto, aerospace, and energy industries remained a source of strength for the District. Demand for inputs for oil and gas production remained strong, boosted by projects begun before the fall in oil prices. An energy industry contact noted that given the typical lag between prices and production, activity should begin to slow in the second quarter of 2015. Demand for steel rose steadily, with expectations for continued growth in 2015. Most specialty metals manufacturers reported steady gains in orders and solid order books, and some contacts indicated a surprisingly high level of activity during the typically slow holiday season. In contrast, demand for heavy machinery grew slowly, though there were marked differences across product categories: Sales of construction machinery continued to grow at a moderate rate, while sales of agricultural and mining equipment remained weak.

Banking/finance. Credit conditions were little changed on balance in December. Financial market volatility stabilized after spiking during the prior reporting period, while equity markets moved higher. Business loan demand was steady, and credit line utilization remained elevated for middle market firms. Banking contacts noted the fall in oil prices as a source of medium-term uncertainty for business lending, with downside risk to loan quality for firms in the oil supply chain. Demand for auto loans increased in line with expectations, and a contact noted a significant spike in credit card applications. In general, banking contacts viewed current conditions as favorable for continued growth in business and consumer lending in 2015.

Prices/costs. With the exception of falling energy prices, cost pressures were little changed in December. Most contacts reported no change in prices, while retailers noted some downward price pressure. Of the few contacts reporting price increases, most cited rising labor costs as a driver. Many contacts noted that skilled labor was in short supply, and wage pressures continued for such workers. Wage pressures remained less pronounced for unskilled workers, but

a staffing firm noted that it was working with clients to raise contract wages in an effort to reduce labor force turnover. Non-wage costs changed little on balance, though a number of contacts again reported rising healthcare costs.

Agriculture. Corn and wheat prices rose during the reporting period, while soybean prices were flat. Wheat prices were up because of drought and cold snaps in areas producing winter wheat and because of limits by the Russian government on exports. The record harvest had created concerns about sufficient crop storage space, but reports indicated that enough space was available. Shipping delays eased too, allowing stocks to move more smoothly to end users. The late extension of beneficial tax deductions will give a boost to after-tax agricultural income in 2014. Low crop prices led farmers to focus on minimizing costs instead of maximizing output in 2015, so that they purchased fewer and lower cost inputs. In addition, rental terms for some cropland were under pressure because farmers would not make enough to cover their costs next year. Ethanol margins compressed with the drop in oil prices. Hog and milk output was higher than expected, leading to further price decreases. Cattle prices were little changed, but became more volatile.

Eighth District - St. Louis**Summary**

The pace of economic growth in the Eighth District was slightly faster than the pace reported in the previous Beige Book. Early holiday sales reports from retail contacts have indicated an increase relative to a year ago. Reports from auto dealers have generally been positive. Recent reports of planned activity in manufacturing and services have also been positive, on net, since the previous survey. Overall, residential real estate markets have remained weak, while commercial and industrial market conditions have continued to be mixed. Lending at a sample of small and midsized banks increased from mid-September to mid-December.

Consumer Spending

Anecdotal reports from retail contacts indicated that consumer demand has grown since the previous reporting period. Retail contacts attributed growth to low gas prices, improving regional labor markets, and low interest rates. Additionally, initial reports indicated that holiday sales throughout the District have been higher than last year's holiday sales. Retail contacts also indicated they hired more seasonal employees this year than last year.

Auto dealers reported that end-of-year sales remained above goals—although one contact reported that sales were more sluggish in recent months than in the third quarter. Contacts noted that inventories of luxury cars are increasing faster than sales for some dealers.

Manufacturing and Other Business Activity

Plans for manufacturing activity remained positive in the most recent reporting period. Firms in chemicals, aviation, packaging, and light machinery plan to hire new employees and expand operations in the Eighth District. In contrast, firms that manufacture furniture and paper reported plans to lay off workers or close facilities. Hiring plans among food manufacturers were mixed.

Plans for activity in the District's service sector have also remained positive. Firms in logistics and information technology services reported new hiring and expansion plans in the District. In contrast, firms in courier, building maintenance, and business support services plan to lay off employees. Reports from firms in healthcare services were mixed.

Real Estate and Construction

Home sales decreased in the Eighth District on a year-over-year basis. Compared with the same month in 2013, November 2014 monthly home sales were down 11 percent in Louisville, 1 percent in Little Rock, 9 percent in Memphis, and 2 percent in St. Louis. Residential construction declined in the majority of the District metro areas. November 2014 year-to-date single-family housing permits decreased in the majority of the District metro areas compared with the same period in 2013. Permits decreased 9 percent in Louisville, 16 percent in Little Rock, and 5 percent in St. Louis. Permits increased 2 percent in Memphis.

Commercial and industrial real estate market conditions in the District have continued to be mixed. A contact in Louisville reported modest improvement in the office space market. A contact in Little Rock expressed concern regarding occupancy rates in the downtown office market. In contrast, a contact in Memphis noted strong leasing activity in the office market and a contact in St. Louis noted that tightening industrial market conditions are placing upward pressure on asking rents. Commercial and industrial construction has also been mixed throughout the District. A contact in Louisville reported that a large employer has finalized plans for a distribution center near Jeffersontown, Kentucky. A contact in Little Rock reported that work on Arkansas's first outlet mall in southwest Little Rock will begin in January 2015. Contacts in Memphis noted that its access to rail, water, and air transportation continues to encourage large employers to build distribution centers and retail stores in the area. A contact in St. Louis reported that a major employer recently broke ground on a new production facility.

Banking and Finance

Total loans outstanding at a sample of small and midsized District banks increased 1.2 percent from mid-September to mid-December. Real estate loans, which account for 71.1 percent of total loans, increased 0.6 percent over this period. Commercial and industrial loans, which account for 16.3 percent of total loans, increased 3.0 percent over the period. Loans to individuals, which account for 5.4 percent of total loans, increased 2.9 percent over the period. All other loans, which account for 7.3 percent of total loans, increased 1.8 percent over the period. During this period, total deposits at these banks increased 2.5 percent.

Agriculture and Natural Resources

As of late November, about 96 percent of the District winter wheat crop was rated in fair or better condition. On average, 81 percent of the winter wheat crop had emerged across the District. A rate slightly below the 5-year average progress rate for this time of year. The majority of the slowdown was attributed to planting delays in Illinois because of wet weather conditions in October. Year-to-date red meat production in the District was 8.7 percent lower in November 2014 than in the same month last year. This decline was driven primarily by lower production in Illinois, Indiana, and Missouri, which collectively produce around 89 percent of the District's red meat output. Year-to-date coal production in the District was 2.8 percent higher in November 2014 than in the same month last year; coal production for November 2014 was about 3.2 percent higher than in November 2013.

NINTH DISTRICT--MINNEAPOLIS

Overall, the Ninth District economy grew at a modest pace since the previous report. Increased activity was noted in consumer spending, professional services, manufacturing, and non-energy mining. Activity was level in tourism and mixed in commercial construction, commercial real estate, and agriculture. Energy, residential real estate, and residential construction were down. Labor markets continued to tighten since the previous report. While overall wage increases remained modest, there were examples of steeper increases in some regions and industries. Overall price increases were modest, but some decreases were noted.

Consumer Spending and Tourism

Consumer spending increased moderately. A Minneapolis area mall reported heavy traffic early in the holiday season, followed by steady traffic later in the season; overall traffic and sales were flat to slightly higher compared with the previous year. A Montana mall reported strong sales activity the week before Christmas, with overall sales up nearly 10 percent compared with a year earlier. A representative of a retailers' association was optimistic about the holiday shopping season in North Dakota, based on reports of strong traffic at stores. A poll of Minnesota retailers taken after Thanksgiving weekend showed that half of respondents expected the holiday season to finish better than the previous year, with the balance mostly expecting sales similar to 2013. An auto dealer in Minnesota noted strong sales in December, particularly for corporate vehicle fleets.

Overall tourism was about level with a year ago. After an early snowfall and an early start to winter sports, warm weather reduced winter tourism in some areas during December. Low snowpack slowed snowmobiling and cross country skiing in northwestern Wisconsin, according to an official. Lift ticket and lodging sales were on par with a year ago, and future bookings were strong at a Montana ski resort. Tourism in western South Dakota was up slightly compared with a year ago.

Construction and Real Estate

Commercial construction activity was mixed. In Sioux Falls, S.D., the value of November commercial permits increased from a year ago. In Billings, Mont., commercial permits decreased in value in November from a year earlier. Residential construction activity in the District was down compared with a year ago. In the Minneapolis-St. Paul area, the value of December residential permits decreased 9 percent compared with December 2013. In November 2014, residential permits dropped in the Bismarck, N.D., area from November 2013. November single-

family residential building permits in Billings increased in value from the previous year, but multifamily permits decreased in value. The value of November residential permits in Sioux Falls increased from a year earlier.

Activity in commercial real estate markets was mixed since the previous report. A real estate analytics firm noted that occupancy rates and revenue per available room were expected to drop from the third quarter to the fourth quarter of 2014 in the Minneapolis-St. Paul area. A Minnesota property manager noted increased leasing activity for retail and office properties during the reporting period. Residential real estate market activity decreased from a year earlier. In the Sioux Falls area, November home sales were down 12 percent, inventory increased 1 percent, and the median sales price increased 6 percent relative to a year earlier. November home sales in northwestern Wisconsin were down from a year earlier; the median sales price was down 6 percent. Minnesota home sales were down 13 percent in November from a year earlier, the inventory of homes for sale increased 5 percent, and the median sales price rose 3 percent. November home sales in the Bismarck area were about level with the same period a year ago.

Services

Activity at professional business services firms increased since the previous report. A law firm in the Minneapolis area noted a recent significant increase in merger and acquisition activity among small startup firms. A logistics consulting firm in Minnesota noted increased billings since the previous report. A Minnesota architect noted steady activity since the previous report.

Manufacturing

Manufacturing activity increased slightly. A manufacturing index released by Creighton University (Omaha, Neb.) increased in December from the previous month in Minnesota and South Dakota, but it fell slightly in North Dakota. However, the index remained at levels consistent with expansion in activity in all three states. Through October, manufactured exports in District states were up 1 percent compared with the same period a year earlier. A producer of commercial windows noted that demand for its products doubled in the last six months.

Energy and Mining

The energy sector slowed slightly in response to lower output prices. Oil and gas exploration activity decreased in late December compared with a month earlier in Montana and North Dakota. However, a company announced plans for four new diesel and natural gas processing plants in North Dakota. Mining activity increased slightly. District iron ore mines were operating at near capacity, with production in November slightly higher than its level a year earlier.

Agriculture

Overall agricultural conditions remained mixed since the previous report, with livestock and dairy producers faring better than crop farmers. According to the Minneapolis Fed's third-quarter (October) survey of agricultural credit conditions, 69 percent of respondents said farm incomes had fallen from a year earlier, while 63 percent reported decreases in capital spending. The fourth quarter outlook was weaker, as 81 percent of lenders expected farm incomes to fall, while 77 percent expected capital spending to decrease from a year earlier. Prices received by farmers in December decreased from a year earlier for corn, soybeans, wheat, hay, and milk; prices increased for cattle, hogs, eggs, and poultry.

Employment, Wages, and Prices

Labor markets continued to tighten since the previous report. In Minnesota, a bank announced plans to hire up to 3,000 new employees companywide in 2015. A holiday seasonal retailer in the Minneapolis-St. Paul area reported increased difficulty finding workers. A contact in the Upper Peninsula of Michigan noted difficulty finding skilled construction workers. Lower oil prices led to an overall slowing in hiring in the energy producing regions of North Dakota and Montana, but labor conditions remained tight. Contacts noted a continued shortage of truck drivers. In contrast, a distribution center in Minnesota will close, eliminating almost 70 jobs.

While overall wage increases remained modest, there were examples of steeper increases in some regions and industries. Some construction firms in the Minneapolis-St. Paul area noted that labor costs have increased recently. In addition, some managers at Minneapolis-St. Paul area restaurants indicated that they were increasing wages to attract employees. An assisted living facility in eastern North Dakota was offering \$10,000 signing bonuses to fill positions for nurses, according to a report.

Overall price increases were modest, but some decreases were noted. Minnesota gasoline prices at the end of December were 75 cents per gallon lower than in mid-November and a dollar per gallon lower than a year ago. Metals prices generally decreased since the previous report.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy continued to grow slightly in December, and most contacts expected moderate growth over the coming months. Consumer spending slowed slightly as retail, auto, and tourism sales experienced a decline. However, contacts anticipated an increase in consumer spending in the coming months. District manufacturing and other business activity increased slightly with a moderate expansion of factory production for durable goods accompanied by sluggish factory production for nondurable goods. Real estate activity continued to edge up, with a moderate rise in commercial real estate activity offsetting seasonally sluggish residential real estate activity. Contacts in the banking industry reported a slight increase in overall loan demand, stable loan quality, and steady deposit levels. Agricultural growing conditions were favorable, with improved soil moisture in many parts of the District and a winter wheat crop that was rated in mostly good condition. The District's energy sector slowed in December and was expected to slow further in response to lower energy prices. Contacts in most industries continued to note a modest rise in overall prices with a slight acceleration in wages primarily due to labor shortages.

Consumer Spending. Consumer spending slowed slightly in December, but activity remained higher than a year ago with solid expectations for the coming months. Retail sales declined from the previous survey and were lower than a year ago. Several retailers noted a drop in sales of high-end products, although sales of home improvement items were steady. Expectations for future sales moderated but remained positive, and inventory levels were expected to drop considerably. Auto sales decreased, but at a slower rate than in the previous survey. However, auto sales remained higher than year-ago levels, and dealer contacts expected moderate growth in the months ahead. Auto inventories continued to rise, with further increases expected. Restaurant sales improved in December and were moderately above year-ago levels, with further growth anticipated in coming months. District tourism activity declined modestly, although activity was higher than a year ago and contacts expected strong growth for the remainder of the winter ski season.

Manufacturing and Other Business Activity. District manufacturing and other business

activity increased slightly in December. Factory production expanded at a moderate pace, particularly for electronics, aircraft, and machinery products, while nondurable goods production remained sluggish. Contacts reported marked gains in factory shipments and new orders, and expectations for future factory activity remained at solid levels. Manufacturers' capital spending plans increased modestly from the previous survey, and export orders were expected to rise moderately. Transportation firms reported weaker activity, although sales were similar to year-ago levels with moderately higher expectations for future months. Professional, high-tech, and wholesale trade contacts noted a slight increase in sales from the previous survey, but the pace of growth was expected to slow somewhat in coming months. Most businesses reported solid growth in capital spending plans.

Real Estate and Construction. District real estate activity continued to edge up as stronger commercial real estate activity offset seasonally sluggish residential real estate activity. Expectations for overall real estate activity were positive. Residential home sales decreased moderately compared to the previous survey period, partially due to typical seasonal sales patterns. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes; however, a few contacts reported an increasing volume of mid- to higher-priced homes sales. Home prices continued to increase modestly since the previous survey period as inventories fell further. Expectations for residential home sales and prices were positive as inventories were anticipated to continue to decline modestly. Residential construction activity decreased modestly, and traffic of potential buyers was flat. Housing starts fell modestly, and sales of construction supply materials were moderately below previous survey levels. Commercial real estate activity continued to increase at a moderate pace, and contacts reported lower vacancy rates and higher absorption rates, completions, sales, prices, and rents. The commercial real estate market was expected to continue to expand moderately over the coming months.

Banking. Bankers reported a slight increase in overall loan demand, stable loan quality, and steady deposit levels through December. Half of respondents reported increasing demand for commercial and industrial loans, while the other half noted steady demand. Most respondents reported steady demand for agricultural, consumer installment, and commercial real estate loans. Demand for residential real estate loans remained mixed. Most bankers indicated loan quality

was unchanged compared to a year ago, and a majority of bankers expected the outlook for loan quality to remain the same over the next six months. Credit standards remained largely unchanged in all major loan categories. In addition, deposit levels remained mostly constant, with more bankers reporting increasing deposit levels than during the last survey.

Agriculture. Agricultural growing conditions were generally favorable in December, and crop prices rose modestly. Although some western areas of Kansas and Oklahoma remained dry, scattered rains improved soil moisture in many parts of the District and the winter wheat crop was rated in mostly good condition. Wheat prices increased modestly amid global supply concerns due to limits on Russian grain exports and lower production estimates in Australia. Corn and soybean prices also rose modestly since the last survey period due, in part, to a slight downward revision in 2014 U.S. production estimates. In the livestock sector, weaker export demand for pork placed downward pressure on hog prices. High feeder cattle prices prompted some producers to feed cattle to heavier weights to boost profit margins.

Energy. The District's energy industry slowed in December. Most respondents reported lower drilling activity, and demand for oilfield services fell. Oil rigs decreased marginally while natural gas rigs increased. Future drilling activity, employment, and capital expenditures were projected to be significantly lower in response to lower oil prices. The price of oil dropped to half of its June peak and was projected to fall further through early 2015. Firms' opinions were mixed about oil prices one year out, but on average they expected a rebound of 15 to 20 dollars per barrel from year-end 2014 levels. Moderate temperatures and higher production pulled down the natural gas spot price over the reporting period, with future decreases expected. A few firms reported increased difficulties accessing credit due to lower oil prices.

Wages and Prices. Prices in most industries continued to grow modestly in December, and wage growth accelerated slightly, with many contacts citing labor shortages. Retail prices rose moderately, and restaurant menu prices continued to increase due to higher input costs. Manufacturers' raw materials prices increased, although at a much slower pace, while finished goods prices were unchanged from the previous survey period. Transportation input prices were flat in December after declining during the previous survey period, while selling prices in the sector remained unchanged. Construction materials prices remained steady, but most contacts anticipated a slight rise in the months ahead. Wages in the retail sector continued to increase during the holiday season, and transportation contacts noted higher wages due to difficulties

acquiring CDL drivers. Nearly all contacts reported increased labor costs as a result of new healthcare regulations. Respondents noted a particular shortage in skilled machinists, engineers, IT developers, and a sustained shortage of truck drivers.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a slightly slower pace over the past six weeks than in the previous report. Manufacturing activity continued to increase. Retailers and automobile dealers saw steady or higher sales. Growth in loan demand picked up, and demand for nonfinancial services was stable or improved. Home sales grew, and apartment and office leasing activity remained strong. Demand for oilfield services declined modestly, while agriculture conditions improved a little. Upward price and wage pressures moderated slightly. Employment in most industries held steady, but there were some layoffs. There was more uncertainty and generally less optimism in outlooks than in the prior report, with contacts across several industries expressing concern about the impact of lower oil prices on the District economy.

Prices Most responding firms said prices held steady over the last six weeks, with fewer instances of firms raising prices than in the previous report. Retailers and auto dealers noted steady prices, and accounting and legal firms said billing rates were unchanged since the prior report but higher than a year ago. Prices and fees generally moved up across the staffing industry in part due to higher costs. One primary metals manufacturer said they were finally able to pass through a slight price increase, while food and fabricated metals producers noted continued increases. Other manufacturers generally reported stable prices. Cement, glass, and brick manufacturers noted plans to raise prices in 2015. There were reports of lower cotton, dairy, and meat prices, and a few contacts said energy firms were requesting discounts on machinery pricing.

The price of West Texas Intermediate crude oil fell sharply over the reporting period, as global supply growth met softer international demand. The price of natural gas dropped, as did gasoline and on-highway diesel prices.

Labor Market Reports of hiring were slightly less widespread than in the prior report, and there were scattered reports of layoffs. A few energy firms reported hiring freezes and layoffs. Staffing firms, auto dealers, and cement, high-tech, and fabricated metals manufacturers reported increased payrolls. Retailers mostly noted flat employment levels, but one contact reported ongoing hiring in line with sales growth. Construction contacts continued to report a tight labor market.

Reports of rising wage pressures were less prevalent than in the previous report. Staffing services firms noted continued wage pressures, particularly for certain sectors and positions, although one firm said companies continued to resist wage increases. Upward wage pressure on semi-skilled positions in manufacturing eased, but contacts noted continued pressure for high-skilled labor mostly in high-tech and food manufacturing. Airlines reported higher salaries, and one brick manufacturer said they plan to increase wages in the near future.

Manufacturing Most manufacturers noted stable or higher demand since the last report, and outlooks were positive. Reports on demand growth from lumber, cement, glass, and brick manufacturers were mixed, but all contacts noted that business was up from a year ago. Primary metals producers saw a seasonal dip in demand, while fabricated metals manufacturers continued to note increases.

High-tech manufacturers said overall demand held steady over the last six weeks, but they noted that demand for high-speed processors, in particular, picked up recently. Respondents expect sales growth in 2015 to be slower compared with the past several years, but to remain well above the long-term trend. They also anticipate growth in electronic devices to outperform the rest of the industry.

Food producers said demand was unchanged over the reporting period and flat from a year ago. Chemical producers reported higher production rates in November compared with year-ago levels. Gulf Coast chemical manufacturers, who use natural gas to fuel their operations, said the lower price of oil has narrowed their competitive edge over their foreign competitors that rely more on oil for production. This development, combined with weaker global demand and a strong dollar has led to a decline in exports of chemical products. Refinery utilization rates increased, and outlooks for refiners and chemical manufacturers remained positive.

Retail Sales Retail demand grew during the reporting period, but reports on the pace of growth were mixed. Two national retailers said Texas' sales performance was a bit slower than the nation overall, while a third national retailer noted Texas was in line with the national average. Black Friday weekend sales were in line with or above retailers' expectations. Contacts reported uncertainty in their outlooks for 2015 partly due to lower oil prices and possible price declines for some meats, produce, and pharmaceuticals.

Automobile sales held steady or increased slightly, and demand was up from a year ago. Inventories were generally high because of the low cost of carrying inventory. Some auto dealers were front loading inventory of Ford trucks as the new model will be slow to roll out. Outlooks for 2015 were positive.

Nonfinancial Services Most nonfinancial services firms reported flat or higher demand and positive outlooks. Reports on demand for staffing services were mixed, with some contacts noting strong increases, while others noted a slight decline. One staffing firm noted a slowdown in hiring in Houston. All skills were in demand, with one contact reporting a significant increase in orders from the engineering, IT, and finance sectors. The accounting sector continued to operate at high levels of activity, and year-over-year growth was nearly in the double digits according to most responding firms. Demand for legal services increased slightly, but one firm said their Houston office experienced a slight dip in activity. Litigation activity remained slow. Bankruptcy work was beginning to pick up, and one contact reported that an oil and gas firm was looking into bankruptcy options. Legal services to financial

practices, particularly in private equity, continued to grow but contacts said that activity may slow next year if oil prices remain low.

Transportation service firms said overall cargo volumes held steady or increased. Shipping cargo volumes increased, boosted by notable growth in steel tonnage, and trucking firms reported stable demand. Airlines said passenger demand held steady since the previous report but was up slightly from a year ago. Domestic airline demand remained strong, and outlooks were positive.

Construction and Real Estate Home sales grew at a steady to slightly slower pace since the last report, and sales were generally even with last year's levels. Builders were slowly building up their inventory of speculative homes, but some contacts said that their appetite for land has declined. Home prices continued to edge upwards, and several respondents reported pushback from buyers on pricing. Outlooks were cautiously optimistic. Apartment demand remained strong. Occupancy rates, although still high, saw a slight seasonal dip. Rent growth stayed solid in Dallas and Houston, but was starting to cool off in Austin. Outlooks were generally positive, but some contacts said they had revised down their 2015 outlook for Houston.

Office leasing activity remained strong, but one contact noted a slight pull back in demand from oil and gas firms. Industrial demand was solid in Houston but slowed in Dallas. A few contacts said that investors are taking a wait-and-see approach because of the steep decline in oil prices. Outlooks were positive, but there was some concern about the elevated level of construction in the Houston office and Dallas industrial markets.

Financial Services Overall loan demand accelerated slightly since the previous report. Growth in consumer lending picked up, and business lending outside of the oil and gas sector increased. In contrast, community banks in areas focused on oil and gas said they were seeing some signs of slowing. Demand for multifamily housing continued to drive growth in commercial real estate lending, but one contact said that their lending standards are becoming pickier. Outlooks remained optimistic, but contacts were concerned that sustained low oil prices may slow Texas growth in 2015.

Energy Demand for oilfield services fell in the Eleventh District. Declines were concentrated in the Permian Basin as firms moved away from traditional vertical drilling, but the Eagle Ford and other oil basins in the District also saw a slight drop off in activity. Outlooks for the first half of 2015 are very uncertain and significantly weaker than in the prior reporting period, with firms expecting anywhere from a 15 to 40 percent decline in demand for their services.

Agriculture Agricultural conditions improved slightly, but large portions of the state remain in drought. Harvesting has wrapped up for all row crops, except cotton, which has been slow this year and is nearing completion. Winter wheat has been planted and some areas look good with ample moisture received, while other areas need more rain to yield a decent crop and good grazing conditions. Cattle

prices have declined slightly but remain near record highs. Dairy prices are markedly lower due to increased global production.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the Twelfth District continued to improve moderately during the reporting period of mid-November through late December 2014. Overall price and wage inflation remained modest. Retail sales and demand for business and consumer services increased moderately. Overall manufacturing activity picked up, while agricultural conditions were mixed. Real estate activity advanced, mainly in the commercial construction sector. Lending activity was mixed.

Prices and Wages

Overall price inflation remained modest during the reporting period. In general, input costs were fairly stable. However, increases in the cost of various construction materials were widespread. Shortages of truck drivers contributed to increases in shipping costs in some areas, even amid fuel price declines. Supply constraints boosted wholesale prices of produce and meat. Effects on retail prices tended to be minimal, but selected areas saw significant jumps. Wholesale prices of agricultural commodities, such as grains, were stable or declined. Oil price declines contributed to a drop in prices in the energy-intensive aluminum production sector. Vigorous online competition exerted downward price pressures in selected retail clothing segments.

In general, wages continued to increase at a modest pace during the reporting period. Several contacts reported that wages were flat or had increased at about the rate of price inflation in their area. Labor shortages boosted wages of truck drivers, aerospace engineers, and construction machinists and framers. Regarding total compensation, some contacts noted that increases in employee medical insurance premiums tended to offset any increases in wages and salaries.

Retail Trade and Services

Overall retail sales activity grew moderately during the reporting period. Holiday spending tended to be higher than in recent years and notably so in some areas. Sales met most expectations, with few reports of excess inventories. Higher-priced items, electronics, men's and women's clothing, cosmetics, and accessories sold well. Online sales growth exceeded in-store growth. Auto sales were

robust in some areas, but came in somewhat below expectations in other regions. Contacts attributed stronger overall holiday sales to continued improvement in employment conditions and decreases in gas prices. Many contacts are optimistic that these developments will continue to spur retail spending in 2015.

Demand for business and consumer services grew moderately during the reporting period. Demand for cloud computing services continued to increase. Sales in the limited service segment of the restaurant sector slowed a bit in November but ticked back up as the holiday season progressed. Holiday spending in this segment was higher than in 2013, and contacts expect that lower gas prices will continue to boost customer traffic in the new year. Travel and tourism to Southern California grew substantially in 2014, and contacts expect this trend to continue into 2015. In particular, travel from China grew rapidly in 2014, and new extended visa rules for Chinese visitors should encourage even more tourism. Improved snow conditions and declines in gas prices contributed to a year-over-year increase in skier visits to the eastern Sierra Nevadas during the reporting period. Spending per visitor at ski destinations also increased.

Manufacturing

Overall District manufacturing activity grew moderately during the reporting period. Contacts reported that energy demand from manufacturers was solid. Biotechnology and pharmaceutical manufacturing earnings were healthy. Semiconductor producers reported year-to-date worldwide sales increased 10 percent from the same period a year earlier, while U.S. sales were up 12 percent. Commercial aircraft production was strong. Order backlogs remained sizable, but contacts were somewhat concerned that the decline in oil prices may cause airlines to start deferring purchases of more fuel-efficient planes. Sequestration continued to erode revenues and capacity utilization in the defense aerospace sector, as the rate of new program starts declined. Increases in the pace of commercial construction boosted domestic demand for recycled steel and metals. However, the stronger dollar and weaker foreign demand reduced exports of these materials.

Agriculture and Resource-Related Industries

Agricultural conditions in the District were mixed during the reporting period. Declines in petroleum prices contributed to reductions in the cost of gas and fertilizer. However, some farmers also

faced lower prices for their commodities. In some areas, restaurants purchased fewer vegetables. Dairy farm profits increased significantly over the past year, but milk futures prices declined recently. Uncertainty regarding future water availability in California slowed new plantings of permanent crops. Declines in demand from Japan and China contributed to a reduction in exports of logs. However, modest increases in the pace of new home construction in some areas slightly elevated domestic demand for logs.

Real Estate and Construction

Real estate activity advanced during the reporting period. The pace of new single-family home construction increased modestly in some areas of the District, with relatively more activity in urban areas than in rural areas. However, some contacts cited increasing costs of materials and labor and a shortage of available lots in some areas in their projections that the pace of new construction will fall back in 2015. Indeed, these contacts reported that the pace of construction permit issuance has declined. A few contacts indicated that home sales picked up a bit in December, but some contacts reported that insufficient inventory is damping the pace of sales. Multifamily residential real estate construction activity was strong in many areas of the District during the reporting period. Retail, office, industrial, or infrastructure projects also were widespread. Most contacts viewed the pace of construction as healthy. However, one contact reported that some investors are concerned that, given planned construction, there soon will be an excess supply of multifamily units in their area.

Financial Institutions

Lending activity in the District was mixed during the reporting period. Some contacts reported a significant increase in loan demand, mostly in the construction segment. Other contacts reported that overall loan demand remained somewhat weak. In some areas, businesses with sufficient cash turned towards internal financing. Deposit growth was strong in many areas, and banks have ample liquidity. Stiff competition for high-quality borrowers exerted downward pressure on loan interest rates, and declines in net interest margins were widespread. Some contacts reported that compressed margins contributed to increased acquisitions as smaller banks combined in order to reduce operating costs.